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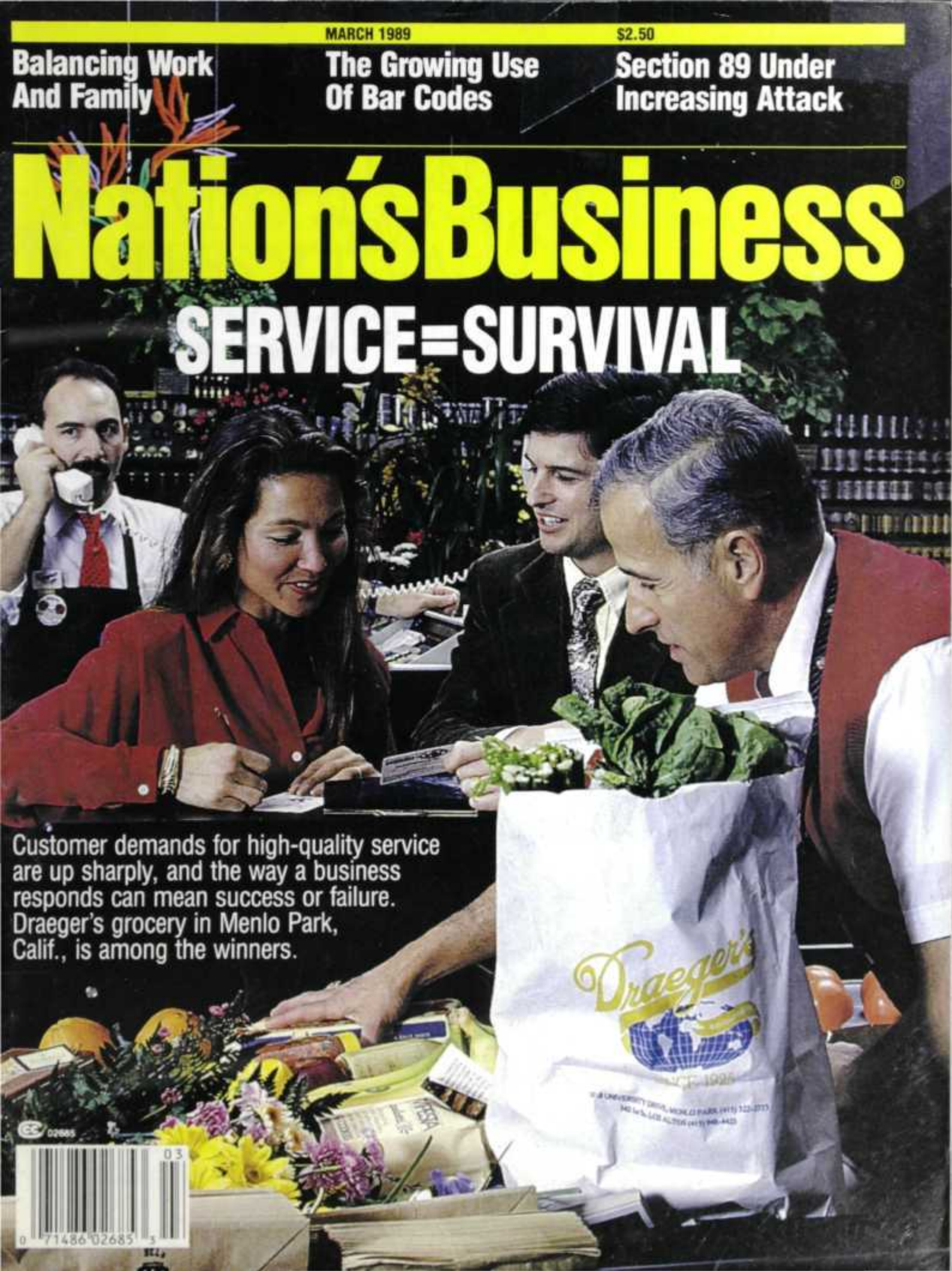
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VOL. 77, NO. 3

Nation's Business®

Published by the U.S. Chamber of Commerce Washington, D.C.

MANAGING YOUR BUSINESS



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PHOTO: T. MICHAEL KEZA

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Nation's Business (ISSN 0028-047X) is published monthly at 1615 H Street, N.W., Washington, D.C. 20062. Tel. (202) 463-5650 (editorial); 463-5433 (circulation). Advertising sales headquarters: 711 Third Ave., New York, N.Y. 10017. Tel. (212) 370-1440. Copyright © 1989 by the United States Chamber of Commerce. All rights reserved. Subscription prices (United States and possessions): one year, $22; two years, $35; three years, $46. In Canada and all other foreign subscriptions, add $10 per year. In combination with the newspaper *The Business Advocate*, one year, $50; two years, $85; three years, $99. Printed in U.S.A. Second class postage paid at Washington, D.C., and additional mailing offices. *Postmaster:* Please send form 3579 to 4940 Nicholson Court, Kensington, Md. 20895. Subscriber Service: 1-800-638-6582 (in Maryland, 1-800-352-1450).

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COMMENTARY

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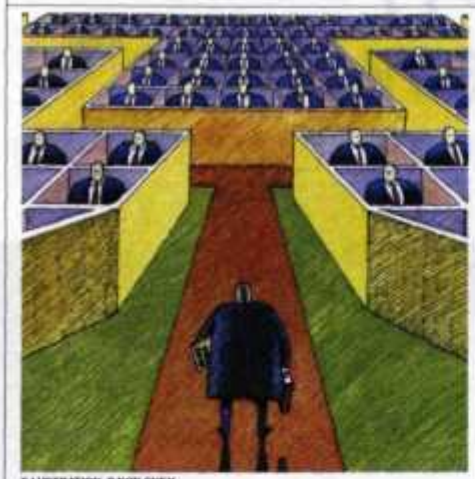


ILLUSTRATION: DAVID CHEN

Bull's-Eye

"A Good Start For New Hires" [January] is right on target. Gene Geromel did a great job of spelling out the vital issues.

The focus on the period between the day that new employees are hired and the day they report to work is substantiated by significant research.

Geromel hit the target when he indicated that the most important factor in a new hire's decision to stay with a job or leave it is whether the person's spouse and family are happy.

We find that most people and companies do not pay enough attention to the psychological and human factors but, rather, focus on the high-ticket items such as real estate and moving expenses.

The problem would appear to be one of unquestioned answers rather than unanswered questions.

William L. Bainbridge
President and CEO
School Match
Westerville, Ohio

The Last Laugh

Age sometimes provides for farsighted wisdom.

As his presidency ended, Ronald Reagan cleverly signed a 50 percent pay increase for the Democratic-controlled Congress, knowing that the Republicans would move against the raise. And practically everyone in the nation would revolt against the Democratic-controlled Congress.

Not a bad strategy for the Gipper as he fades into the sunset. I can picture the smirk on Reagan's face as he heads for California.

Dailey J. Berard
New Iberia, La.

Send letters to Editor, Nation's Business, *1615 H Street, N.W., Washington, D.C. 20062, and include your phone number. Letters addressed to the Editor will be considered for publication unless the writer requests otherwise, and they may be edited and condensed.*

Just To Let You Know

Thought you might be interested to know that Keith Briscoe, who received many calls from the article about him in *Forbes*, got twice as many in response to his article in *Nation's Business* ["Colleges, Like Companies, Need Vision To Succeed," December].

It seems that he struck a responsive chord.

John E. Ross
Vice President
College Connections
New York

Making The Call On Women's Business

As a result of Sharon Nelton's article "Women Mentors For Entrepreneurs" [January], the Women's Network for Entrepreneurial Training (WNET) has been receiving 8 to 10 calls per day.

It is encouraging to see that the concept of developing the management abilities of those who own businesses is becoming a reality in the business community, and especially for women in business.

Carol M. Crockett
Director
Office of Women's Business Ownership
U.S. Small Business Administration
Washington

Good Ethics In Business Pays

We thought Michael Barrier's article "Brother Act" [January] was great.

You really captured the spirit of Quill Corp. and our own personal feelings.

We have received many letters regarding the article, and they seem to zero in on a point that was made by one correspondent: "It is always good to hear that policies of ethical business behavior and excellence in customer service are rewarded."

Jack Miller
President
Quill Corp.
Lincolnshire, Ill.

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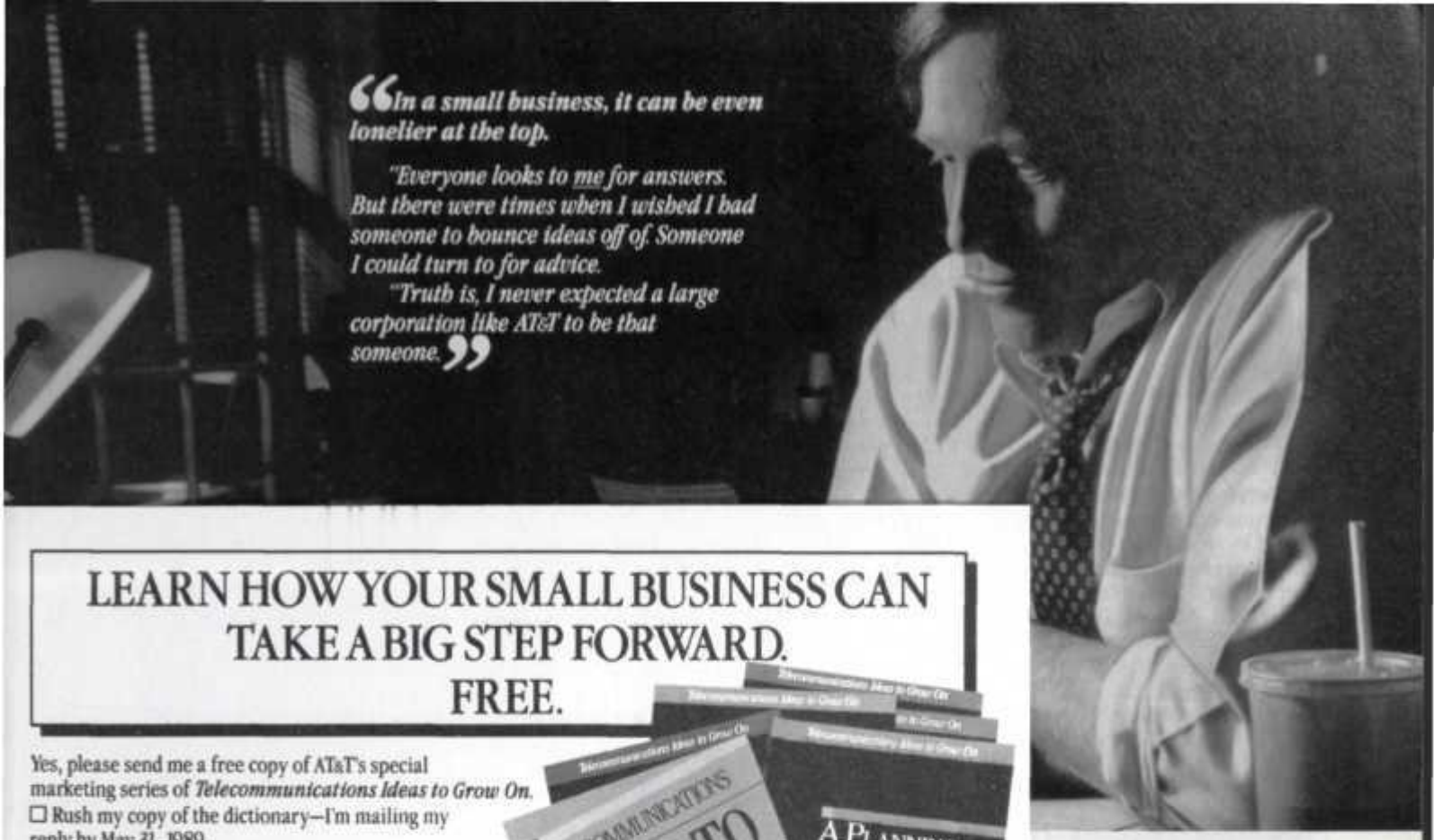
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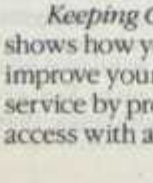
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A Push To Repeal Section 89

The tax code's complicated new strictures on employee benefits are "inherently defective," says one congressional leader.

By Roger Thompson

The push is on to repeal Section 89 of the federal tax code, the complex new provision under which many business owners and upper-income employees will pay taxes on a portion of their health benefits.

But even supporters of the repeal effort concede they face an uphill battle. Rep. Dan Rostenkowski, D-Ill., the chairman of the House Ways and Means Committee, has shown no signs of relenting in his support for the measure as it now stands. "He thinks it [Section 89] is a good law, and he wants to see it work," said an aide.

As head of the powerful committee with practically absolute authority over tax law, Rostenkowski would have to be won over to the cause of repeal if the business drive is to succeed.

Rep. John J. LaFalce, D-N.Y., chairman of the House Small Business Committee, has set out to do just that. He maintains that Section 89 is "inherently defective." He has introduced a bill, H.R. 634, to repeal the law. "I fully support the intent of Section 89 and its ultimate goal of encouraging employers to expand health-insurance coverage," said LaFalce. "But I am concerned that the law is so complicated and the compliance burden so onerous that it may well have the opposite effect."

LaFalce's carefully measured language belies the frustration and disbelief generated by Section 89, especially in the small-business community. During committee hearings on the law in January, small-business witnesses hammered Section 89 for its maddening complexity and draconian penalties.

"Many accountants are recommending to their small-business clients that it may be advisable [and less expensive] to drop coverage in their employee benefit plans rather than meet the costs associated with compliance under Section 89," said Don Hull, an independent accountant speaking for the National Society of Public Accountants.

"Small business has been the focus of debate over ways to expand health-care coverage because most of the working uninsured are found in small firms," said Diane Large, vice president for personnel of the U.S. Chamber of Commerce. "But many companies, as they discover the complexities of com-

House Small Business Committee Chairman John J. LaFalce is concerned that Section 89's compliance burdens could in fact reduce workers' health coverage.



PHOTO: T. MICHAEL KEZA

pliance [with Section 89], will decide not to offer benefits at all."

That was not the stated goal of Section 89, which was part of the 1986 tax-reform package but did not take effect until Jan. 1 of this year. Congress intended that Section 89 expand and broaden benefits, primarily health insurance, to workers who are inadequately covered or not covered at all.

The law established an elaborate set of nondiscrimination tests to determine whether an employer offers a disproportionate share of tax-exempt benefits to higher-paid employees. The law doesn't ban discrimination, but it is aimed at leveling the differences between the higher-paid employees and everyone else.

However, an employer may continue a discriminatory benefits plan, provided that the higher-paid employees pay taxes on the discriminatory portion of their benefits package. This, in fact, is the route most employers will follow because it is cheaper than broadening benefits, say many consultants.

Stiff tax penalties await any employer who fails to comply with the nondiscrimination rules. But employees are subject to taxation if their employers fail to comply with a separate provision of the law that specifies how to maintain a so-called qualified plan. For example, if a company health plan that fails the qualification test pays $50,000 to an employee who suffers a catastrophic illness, that money becomes taxable income to the employee. For someone in the 28 percent tax bracket, that means an additional $14,000 in federal taxes alone. Moreover, if the employee dies and the company's life insurance plan pays $50,000 to the spouse, that sum also is subject to taxation.

Employers who fail to report these transactions to the Internal Revenue Service also pay a tax penalty on the payout calculated at the highest individual tax rate, now 33 percent.

LaFalce maintains that it isn't fair to tax employees because their employers failed to comply with the law.

"Repeal won't happen quickly; it will take time," said LaFalce. "But the more the small-business community makes its views known to the Ways and Means Committee, the more amenable its chairman might be to reconsideration."

What's Your Story?

What type of extraordinary problem have you encountered in trying to comply with Section 89? We would like to hear about it so we can document this law's real-world impact on companies. Write to: Section 89, c/o *Nation's Business*, 1615 H Street, N.W., Washington, D.C. 20062.

Hotline For Section 89 Repeal

You can join the drive to repeal Section 89.

The U.S. Chamber of Commerce has established a Western Union hotline to send to President Bush a message urging him to back repeal.

Call 1-800-257-4900 and ask for hotline operator 9485. Each telegram will cost you $5.75, charged to your phone bill or a major credit card. The 800 call to order the telegram is toll-free.

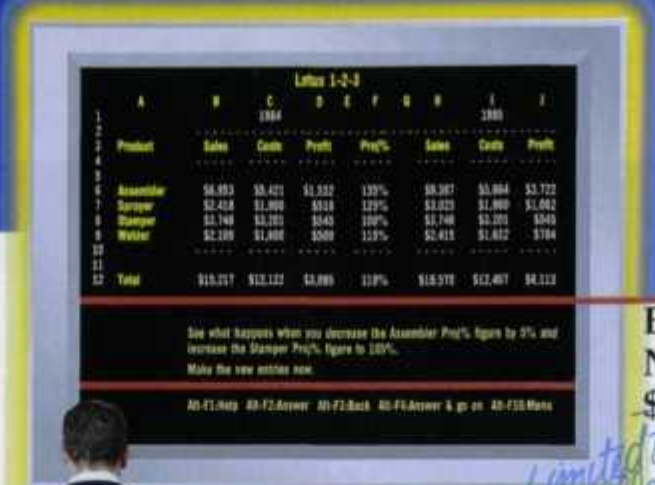
The message reads:

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Small-Business Update

By Donald C. Bacon



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Energy Priorities Outlined For Bush

Nuclear energy should be positioned for greater use, the U.S. Chamber of Commerce said in comprehensive energy-policy recommendations outlined for President Bush.

Proposals for a balanced energy policy, including a call for more access to public lands for development of natural resources, were outlined for President Bush in a paper prepared by the Energy and Natural Resources Committee of the U.S. Chamber of Commerce.

"A national energy policy that assures energy security and balances economic growth and environmental protection is essential," the committee said. "Such policy must maximize the contributions from all domestic energy resources—coal, oil, natural gas, uranium, and conservation—and encourage development of new technologies which improve fuel efficiency."

Among the committee's policy recommendations:

- Maintain a continuing review of all existing and future restrictions that bar resource development on public lands.
- Encourage exploration for and development of new domestic oil reserves; impose no new taxes or import fees on oil consumers or the oil industry.
- Decontrol the wellhead price of natural gas.
- Promote greater, environmentally sound use of coal; develop improved emission-control technologies; scrutinize closely any changes in environmental standards affecting coal.
- Maintain nuclear energy as a power source, and position nuclear energy for greater use in the future.
- Boost energy conservation while recognizing the need to stimulate expansion of conventional energy supplies, and spur development of new energy sources.

A Bigger Role For Private Firms In Moving The Mail?

Small companies interested in doing business with the U.S. Postal Service should keep alert to the possibility that the big, quasi-public agency will farm out more of its activities to private industry.

Postmaster General Anthony M. Frank says the Postal Service will pinpoint in coming months which, if any, of its vast operations might be handled better by private contractors.

He named no likely areas for contracting out, but he noted that "in developing our assessments, nothing is to be sacred, nothing off limits."

Frank conceded, however, that increased contracting out won't be easy: "Any decisions to contract out significant work elements will be difficult; they are likely to cause protest, bring political pressure, and sorely test this organization's mettle. But if some additional contracting in noncritical areas makes sense for our customers and for the long-term good of the Postal Service, then we must have the courage to make the hard decisions."

Labor unions representing postal workers, backed by powerful coalitions in Congress, have bitterly fought previous efforts to turn substantial postal activities over to the private sector.

The postmaster general, speaking at the National Press Club, in Washington, ruled out privatizing the entire Postal Service, calling the much-debated idea "unworkable and unnecessary."

Many advocates of privatization maintain, however, that the Postal Service remains a prime candidate for conversion of a government activity to private ownership.

Total Compensation Soars For Marketing Executives

Led by marketing and sales executives, most top officials of small and midsized firms earned more money in 1987 than they earned the year before, according to a recent survey of 562 members of the National Institute of Business Management, a business advisory organization.

Chief executive officers drew the highest pay. Their median total compensation was $139,000 in 1987, up 6.9 percent from $130,000 in 1986. The median is the point at which half of those surveyed earned more and half earned less.

Some executives did even better than CEOs in percentage gains for the year. The median total compensation of marketing executives, for instance, rose 20 percent to $90,000 in 1987. Sales executives' median total climbed 9 percent to $75,699.

Top company officials for human resources, finance, and data processing lagged with pay hikes for the year

This Month's NB TIPS

Do you need a quick assessment of your product's or service's market potential in Seattle, Kansas City, or any of 3,000 other American and Canadian cities? Such chores are a snap with *The Assessor Series*, a comprehensive computer and hard-copy reference package that has been compiled by the Economic Research Institute, of Newport Beach, Calif. Included in the package is database

pations, and it can estimate the value of your privately held firm. The package with databases for the current quarter costs $279, plus $3.50 for shipping. If you would like more information, write to Economic Research Institute, 901 Dove St., Newport Beach, Calif. 92660, or call (714) 833-9801.

The Greatly Growing Garbage Problem, a new publication from the U.S. Chamber of Commerce, is an authoritative guide to solid-waste management. The guide contains information essential to communities and businesses that have to plan and implement programs for solid-waste disposal. The publication is $20 for members, $33 for nonmembers. It

employers who hire economically disadvantaged individuals from nine groups.

The groups include 16- and 17-year-old disadvantaged youths hired for summer work, other disadvantaged youths from ages 18 through 22, people with disabilities who are referred by state vocational rehabilitation and Veterans Administration programs, economically disadvantaged Vietnam-era veterans, economically disadvantaged ex-offenders, and recipients of Aid to Families with Dependent Children, Federal Supplemental Security Income, and state and local general-assistance payments.

Employers may claim a credit of 40 percent of first-year wages up to $6,000 per employee. The credit for disadvantaged youth hired for summer employment is limited to 40 percent of wages

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ıood Drugstores: Not Doomed

ıt neighborhood pharmacies, ttered by competition from stores and mail-order compafield of providing prescrip-, face even tougher times many can survive by stressr service, according to a re-

ving III, health-care analyst nsulting firm of Arthur D. in Cambridge, Mass., prehain drugstores will contin-, that physicians will sell s directly to patients, and rder drug sales will flourthe expense of independent . The study was published ision Resources Division of ittle.

ents can overcome the chalit with some difficulty," Irs. The key is in providing t bigger competitors cannot match, he says, adding that neighborhood pharmacies can win customers by offering hard-to-find extras such as "answering questions on prescription drugs, advising on over-the-counter drugs, providing 24-hour access, and reinstating home delivery." (For more on service as a key to business survival, see the cover story, on Page 16.) NB

Tanning salons topped the phone-listings growth chart in 1987, according to the latest tally of Yellow Pages listings.

The number of listings for tanning salons grew 55.3 percent, from 11,202 on the first day of the year to 17,405 on the last day. In second place were re-

Clothing alterations: 5,045 to 6,383, 26.5 percent.

Congress Extends Targeted-Jobs Program

Congress has extended through 1989 a popular federal program offering credits against a company's tax liability to

Small-Business Update

By Donald C. Bacon



Energy Priorities Outlined For Bu

Proposals for a balanced ene
including a call for more acc
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sources, were outlined for
Bush in a paper prepared b
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of the U.S. Chamber of Com

"A national energy polic
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said. "Such policy must m
contributions from all dome
resources—coal, oil, natural
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development of new technol
improve fuel efficiency."

Among the committee's p
mendations:

- Maintain a continuing r
existing and future restrictions that bar resource development on public lands.
- Encourage exploration for and development of new domestic oil reserves; impose no new taxes or import fees on oil consumers or the oil industry.
- Decontrol the wellhead price of natural gas.

the big, quasi-public agency will farm out more of its activities to private industry.

Postmaster General Anthony M. Frank says the Postal Service will pinpoint in coming months which, if any, of its vast operations might be handled better by private contractors.

He named no likely areas for contracting out, but he noted that "in developing our assessments, nothing is to be sacred, nothing off limits."

Frank conceded, however, that increased contracting out won't be easy: "Any decisions to contract out significant work elements will be difficult; they are likely to cause protest, bring political pressure, and sorely test this organization's mettle. But if some additional contracting in noncritical areas makes sense for our customers and for the long-term good of the Postal Service, then we must have the courage to make the hard decisions."

Labor unions representing postal workers, backed by powerful coalitions in Congress, have bitterly fought previous efforts to turn substantial postal activities over to the private sector.

The postmaster general, speaking at

The median total compensation of marketing executives, for instance, rose 20 percent to $90,000 in 1987. Sales executives' median total climbed 9 percent to $75,699.

Top company officials for human resources, finance, and data processing lagged with pay hikes for the year

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ranging from 2 percent to 2.7 percent.

Not all executives saw their earnings rise in 1987. The survey noted that many executives of publicly held companies suffered a decline in total compensation, partly the result of fewer and smaller year-end bonuses following the October 1987 stock-market drop. The lowest-paid executives in the survey worked for manufacturing companies with sales under $2.5 million; the highest-paid survey participants worked for manufacturing concerns with sales exceeding $100 million.

Let Your Fingers Do The Counting

One indicator of the types of businesses that are enjoying growth is the increase in telephone listings in local Yellow Pages directories throughout the country.

Tanning salons topped the phone-listings growth chart in 1987, according to the latest tally of Yellow Pages listings.

The number of listings for tanning salons grew 55.3 percent, from 11,202 on the first day of the year to 17,405 on the last day. In second place were retailers of toys and novelties, from 9,152 to 14,119 listings, a 54.2 percent rise in Yellow Pages listings.

Following are the rest of the top 10, showing for each type of business the number of listings at the beginning and at the end of 1987, and the percentage of increase.

Videotape and disc renting and leasing: 15,126 to 22,945; 51.6 percent.

Videotape and disc retailing: 8,734 to 13,027; 49.1 percent.

Computer-system designing and consulting: 7,910 to 11,359; 43.6 percent.

Computer software retailing: 13,062 to 18,751; 43.6 percent.

Video production: 5,619 to 7,941; 41.3 percent.

Video recorder and player service and repair: 5,951 to 8,323; 39.8 percent.

Video recorder renting and leasing: 6,600 to 9,112; 38 percent

Clothing alterations: 5,045 to 6,383; 26.5 percent.

Congress Extends Targeted-Jobs Program

Congress has extended through 1989 a popular federal program offering credits against a company's tax liability to employers who hire economically disadvantaged individuals from nine groups.

The groups include 16- and 17-year-old disadvantaged youths hired for summer work, other disadvantaged youths from ages 18 through 22, people with disabilities who are referred by state vocational rehabilitation and Veterans Administration programs, economically disadvantaged Vietnam-era veterans, economically disadvantaged ex-offenders, and recipients of Aid to Families with Dependent Children, Federal Supplemental Security Income, and state and local general-assistance payments.

Employers may claim a credit of 40 percent of first-year wages up to $6,000 per employee. The credit for disadvantaged youth hired for summer employment is limited to 40 percent of wages up to $3,000.

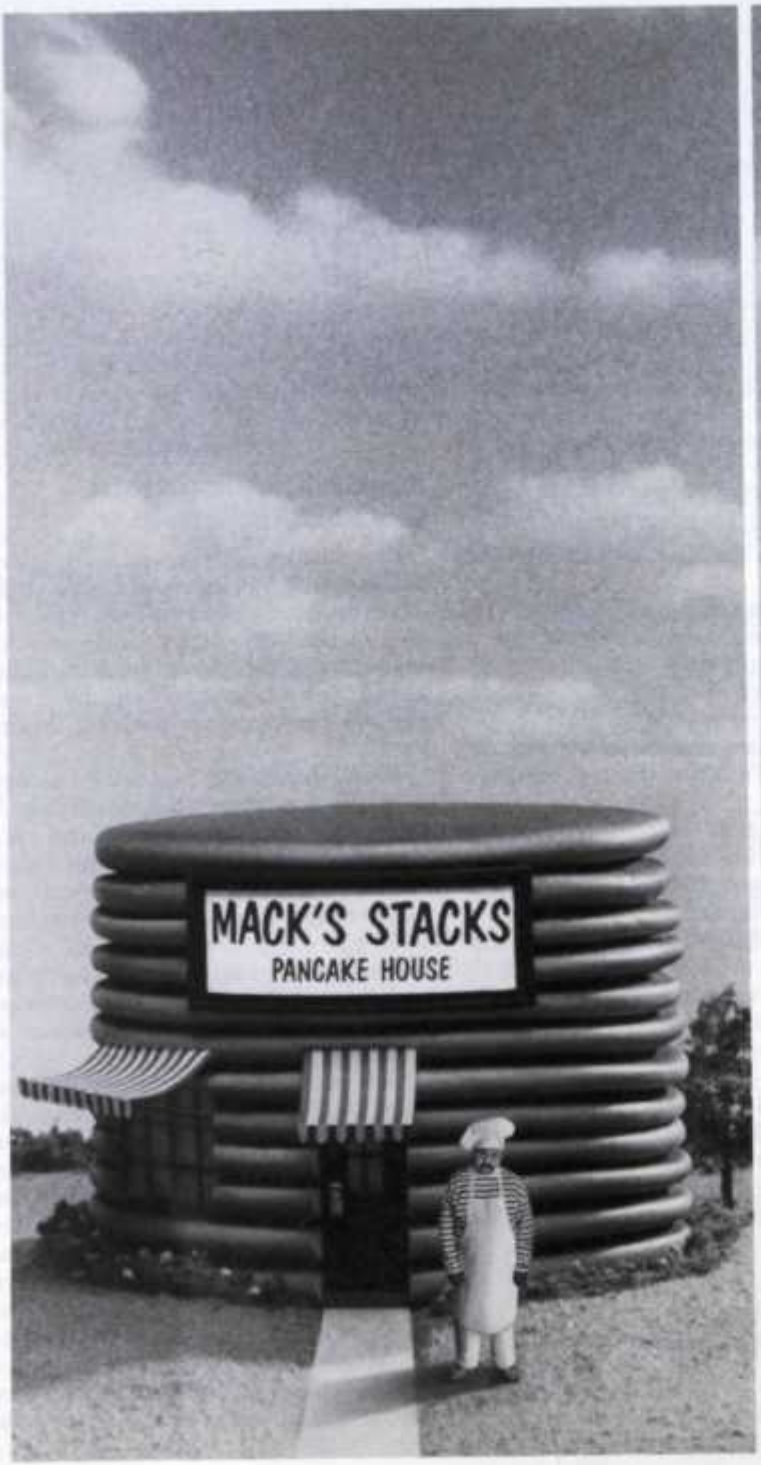
Neighborhood Drugstores: Down But Not Doomed

Independent neighborhood pharmacies, already battered by competition from chain drugstores and mail-order companies in the field of providing prescription drugs, face even tougher times ahead. But many can survive by stressing superior service, according to a recent study.

Mason Irving III, health-care analyst with the consulting firm of Arthur D. Little Inc. in Cambridge, Mass., predicts that chain drugstores will continue to grow, that physicians will sell more drugs directly to patients, and that mail-order drug sales will flourish—all at the expense of independent pharmacies. The study was published by the Decision Resources Division of Arthur D. Little.

Independents can overcome the challenge, "albeit with some difficulty," Irving believes. The key is in providing services that bigger competitors cannot or will not match, he says, adding that neighborhood pharmacies can win customers by offering hard-to-find extras such as "answering questions on prescription drugs, advising on over-the-counter drugs, providing 24-hour access, and reinstating home delivery." (For more on service as a key to business survival, see the cover story, on Page 16.) NB

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MANAGING YOUR BUSINESS

Six Ways To Be "Family-Friendly"

By Sharon Nelton

Margaret and William Freivogel remember the tightly scheduled day they handed over one of their children at Dulles International Airport, outside Washington. Margie was returning from a business trip to Boston, Bill was departing on a business trip to Detroit. When Bill met Margie at the airport, he gave then-4-year-old son John to Margie and headed for his flight.

This is not an example of how horrendous it is to be a family with two breadwinners. Quite the contrary. It shows one couple, with the blessing of their employer, finding ways to balance the difficult and often conflicting demands of work and family life.

For eight years, the Freivogels, the parents of four children ages 5 through 13, have shared one job. They alternate in the post of assistant chief of the Washington bureau of the *St. Louis Post-Dispatch*. Generally, Bill works Monday and Tuesday, Margie works Wednesday and Thursday, and they split Friday.

"We barter for time to accommodate each other, the paper, the music teacher, the soccer team, and so on," says Margie. The guiding principle, she says, is that "the paper can have one of us at any time, but never both of us at the same time."

The *St. Louis Post-Dispatch* is one of a growing number of businesses discovering that helping employees accommodate both home life and work life through job-sharing and other arrangements benefits not only the employees but also the company. Several of the newspaper's editorial employees work four-day weeks, and in one arrangement, three reporters share two jobs.

"It's worked excellently," says *Post-Dispatch* Managing Editor David Lipman. "The quality of the work and the results have been quite good for the paper, and it's enabled us to keep in the workplace some very talented individuals who might otherwise have had to opt for something else."

Flexible arrangements have not spread throughout the newspaper's 1,500-member work force. But Lipman says his newsroom's flexible approach is "certainly accepted by our company."

Support for the family may well be a major issue of the 1990s, extending to such concerns as care for the elderly and the maintenance of good family relationships and healthy marriages.



PHOTO: T. MICHAEL KEZA

Margaret and William Freivogel find that sharing a job gives them more time with their children—clockwise from upper left, Elizabeth, 11, Benjamin, 13, Megan, 8, and John, 5.

The World Future Society, a scientific and educational organization, stated in a recent forecast: "Family-supportive company policies will become more common as the baby-producing baby boomers move into the upper echelons of management."

It makes good business sense to help employees cope with the pressures of work and home, contends Emyré Barrios Robinson, president of Houston-based Barrios Technology Inc.

Barrios' 300 employees provide engineering and computer-related services to the space industry, the military, and private companies. Those employees serve the customer best when they "feel the company takes an interest in them as individuals and is willing to be flexible and allow them the leeway to meet their responsibilities at home and to the family," says Robinson.

Family problems are not just the province of women employees. In a recent study of 4,000 of its 100,000 em-

More and more businesses are finding that helping employees accommodate both home life and work life through job-sharing and other arrangements benefits the company as well as its employees.

ployees, the Du Pont Co. found that nearly half of those who were using or planning to use child care are men.

Work and family issues "have become major concerns for an increasing number of male employees," Du Pont's personnel manager, Benjamin D. Wilkinson, said when releasing the study early this year. "The fact that 25 percent of the men and about 50 percent of the women have considered seeking another employer who might offer more work or family flexibility shows how seriously these issues can affect the company."

The steps that Du Pont, Barrios, and other companies are taking to adapt to the needs of dual-income and single-parent families are often effective without being expensive. Frequently their biggest cost is simply the courage it takes to do something different.

Here, based on what some of today's pioneering businesses are doing, are six ways your company can help employees balance work and home life:

1. Find out what employees need. Before you make any major changes, do a "needs assessment." It can be as simple as a survey, but it should tell you such things as how many of your employees are parents with child-care needs, who is responsible for an elderly parent, and what your employees think you could be doing to help them with family-life concerns.

The Du Pont study was conducted by the company's Work and Family Committee, a group of 16 employees appointed to study and make recommendations on work and family issues. You could set up a similar committee.

2. Look at time in a fresh way. It may be the most desirable—and cheapest—thing you can offer. Many employers find that flextime, job-sharing, and working-at-home arrangements bring results that are at least as good as those from an employee on a rigid schedule. Barrios Technology even permits new mothers who live nearby to go home to nurse their infants. But Emy Robinson cautions that Barrios' flextime policy does carry some limits. Employees are permitted to come to work as early as 7 a.m. or leave as late as 6 p.m., but they must be on a regular schedule—they can't come in at 7 a.m. one day and 9 a.m. the next.

Some companies are setting up "catastrophic time banks." These enable employees with large buildups of sick leave to contribute some of their available leave to employees with dire need. Say an employee has to undergo surgery three times in one year. If he runs out of leave while recuperating from the second operation, he can start drawing time from the bank.

"The point is, it really doesn't cost employers anything," says Therese A. Keegan, of the Metropolitan Washington Council of Governments, a regional planning organization in Washington. "They've already given that leave time to somebody. It's just a way of reorganizing it so that it can meet a desperate need."

People get desperate, and they will lie. They have to do it. It's hard to give up a day's pay.

—Houston entrepreneur Emyre Barrios Robinson, on restrictive sick-leave policies

3. Make policies match reality. Some companies, Barrios among them, allow parents to use their own sick leave when they must stay home to look after a sick relative. It formalizes what's already happening and permits employees to be more honest. For example, a father doesn't feel he has to pretend to his office that he is sick in order to stay home and look after a youngster with a fever. He can tell his supervisor what's really going on. Otherwise, says Robinson, "you find that people get desperate, and they will lie. They have to do it. It's hard to give up a day's pay."

4. Look at dependent-care options. An on-site day-care center (for the elderly or children) isn't the only answer—and it may be inappropriate for a small business, where there may be too few employees to justify a center. You can contract with a research and referral service to help employees find suitable day care. Such services are now widespread in the child-care field and are beginning to spring up for the elderly.

You can also offer flexible benefits. At Barrios, for example, a parent can get $1,020 per year to apply to child care; another employee might choose to use the benefit for extra life insurance or a health club instead.

Or consider installing a "flexible spending account" plan. This enables employees to spend up to $5,000 of tax-free earnings on dependent care.

5. Make sure your supervisors get the message. Some employees report that despite company policy, supervisors sometimes turn down reasonable requests for flextime or other arrangements that would benefit an employee's family life. Supervisors need your assurance that being flexible is okay.

In one of its recommendations, Du Pont's Work and Family Committee urged increased "sensitivity of supervision to work/family issues" and called for training to make sure supervisors used company resources and procedures in dealing with such issues.

6. When employees make special requests, listen. The Freivogels took the initiative of proposing their job-sharing plan, and they had to get the agreement of the union, their publisher, and a skeptical bureau chief. But their suggestion worked.

When your employees ask for such special accommodations as part-time work, job sharing, or working at home, don't reject the ideas out of hand. Give an employee a chance to prove that an unusual arrangement can succeed.

The Freivogels say that their decision was to trade work time and income for home time and parental involvement. "I can't imagine we will ever regret the choice," says Margie.

As for companies, says Therese Keegan, "I think they are finding that a recognition of employees' lives beyond the workplace reaps benefits for them in terms of more productive employees who will be retained longer."

In other words, it pays to be "family-friendly." **NB**





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COVER STORY

Service = Survival

By Joan C. Szabo



PHOTO: ©CHARLES MOORE—BLACK STAR

Special attention is the hallmark at Draeger's, a Menlo Park, Calif., grocery store. Here, Richard Draeger, center, a son of the founder, oversees the packing of a customer's purchases. The store combines the convenience of a modern supermarket with old-fashioned touches such as letting regular customers charge their purchases.

Demands of American consumers for high-quality service are higher than ever, and businesses that ignore the new realities of customer satisfaction can jeopardize not only their future sales but also their very survival.

Service has achieved this critical importance in today's complex economy because of factors that include contemporary lifestyles, technology's impact on consumer products, and even global trade. Those factors affect service levels in different ways:

Lifestyles. Married couples that have both work and family responsibilities want hassle-free shopping. Don Shapiro of First Concepts Development Corp., a Burbank, Calif., management-consulting firm in the fields of customer satisfaction and employee motivation, says: "People are working longer but doing more. They want to spend more time with their children, they want to exercise, they want to pursue recreation and culture. They have less free time, and they are more consciously aware of how that time is used. They don't want to use it trying to solve problems with stores and other places where they spend their money. Their expectations for quality and service have risen dramatically."

Technology. The increased complexities and the widening choices among today's technology-based products and services—many utilizing advanced electronics—make consumers less able to evaluate options, says Warren Blanding, founder and chairman of the Customer Service Institute, an educational and training organization in Silver Spring, Md. "Most buyers don't have the technical knowledge necessary to identify the best choice in such products as electronic equipment, motor vehicles, or office machines," Blanding says. "So they want reassurance that support and service will be available if problems arise." He offers this maxim: "Service is the product."

Trends In Global Trade. As foreign companies launch or acquire U.S. subsidiaries in the retail, hotel, food, and other industries, they introduce service standards that make them tough competitors for American firms. Karl Albrecht, a management consultant and author of *At America's Service*, says, "American service industries of all kinds are ripe for invasion." He cites a leading example: "The Japanese have shown that they can focus resources and talent on virtually any industry they choose. So far, they have chosen mostly manufacturing industries. But now they are moving aggressively into banking and financial services. . . . They are nibbling away at the retail sector and the hotel industry, and we can expect them soon in the restaurant business. . . . The Japanese cultural penchant for catering to the individual in a courteous and deferential way . . . is legendary."

The increasing importance of rising expectations among customers has special implications for small businesses. "Providing top-notch service is the only inexpensive way small companies have to really distinguish themselves from their competitors and lift themselves above the pack," says John Tschohl, a customer-service expert and president of the Better Than Money Corp., a Bloomington, Minn., consulting firm. He also points out that the challenge is greater for small businesses: "Customers expect small firms to be closer to them and to deliver better service."

Companies that lose customers because they have not recognized changing consumer attitudes on quality service will pay a high price. The American

Free-lance writers Ellen Mansoor Collier, in Houston, and Sylvia Blishak, in Menlo Park, Calif., contributed to this article.

Recognizing the growing demand for customer satisfaction can boost a small business above the ranks of its competitors; ignoring it can jeopardize a company's future.



PHOTO: ©ROBERT HOLMGREN

All staff members at University National Bank & Trust Co., in Palo Alto, Calif., meet on the first day of each month to send out customers' statements, which arrive about a week earlier than they would without the teamwork and extra effort. At the head of the table is the bank's founder and CEO, Carl Schmitt.

Management Association says that 65 percent of the average company's business comes from its present, satisfied customers. The Customer Service Institute estimates that it costs five times as much to acquire a new customer as it costs to service an existing one.

CSI's research also shows that a business that each day for a year loses just one customer spending $50 a week will find its sales reduced by $949,000 for the following year. The toll is higher, of course, for the loss of higher-spending customers. (See the chart on Page 19.)

There's also the danger of a multiplier effect. The Technical Assistance Research Programs Institute (TARP), a research firm in Washington, says its studies indicate that 91 percent of unhappy customers will never again buy from the offending company and will let their dissatisfaction be known to at least nine other people.

But the multiplier effect can have positive results. Ron Zemke of Minneapolis, a consultant and author on customer service, writes: "Research shows that companies that hit on winning service formulas are profitable, grow in market share, and inspire a lot of highly positive word-of-mouth commentary among the people they satisfy."

In his latest book, *The Service Edge: 101 Companies That Profit From Customer Care* (NAL Books, New York), Zemke says: "Today's consumers are willing to pay a premium to have their basic needs met in a timely and effi-

Service = Survival

A free shoe shine is just one of the ways that University National Bank & Trust Co. offers customers personal attention. Other special touches include sending messengers to pick up deposits and arranging after-hours appointments for those too busy to get to the bank during regular hours.



PHOTO: ©ROBERT HOLMGREN

cient manner, and they'll be pleasantly surprised if they're treated with a little dignity and respect in the bargain."

And how does a business reach such levels of customer satisfaction? The principal avenues are aggressive efforts to determine customers' wants and needs, a staff trained and motivated to deliver on those wishes, and active follow-up that includes efforts to obtain customers' appraisals of service quality.

Draeger's, a grocery store in Menlo Park, Calif., is an example of a business with a growing base of customers willing to pay extra for top service. The store enjoyed a 57 percent growth in sales over the past three years by combining the convenience of a modern supermarket with old-fashioned service. Even though its prices are higher than those of its competitors, Draeger's continues to expand its customer base.

Owner Frank Draeger says the key to his successful operation is "taking the drudgery out of shopping" by responding to needs expressed by its customers. The store has a gourmet delicatessen, an old-fashioned butcher shop, a flower stand, an imported-foods section, and racks of upscale wines.

In addition, Draeger's packs box lunches for customers on their way to events such as San Francisco Giants baseball games or Stanford University football games. The store also sells prepared meals that customers can pick up after work and reheat at home. What's more, Draeger's not only sells party supplies but also offers the services of a party coordinator to help busy customers put the supplies to best use.

Customer loyalty extends beyond the store's Menlo Park shopping area. Draeger's fans across the country regularly send in their orders for meat, fruit baskets, cheeses, and wines.

A decidedly old-fashioned touch at Draeger's is the system of letting customers pay later for their purchases. A regular customer who arrives in the checkout line without cash or a checkbook, for example, can charge the cost of the groceries—no credit application required—and expect an invoice in a few days requesting payment within 30 days. The store also has its own credit card—which does require a credit application—and statements are sent monthly.

Draeger says the store maintains its reputation for service through its selection of managers: "If a manager doesn't have the inner conviction about excellent service, we find that we can't always instill it—so we have to choose service-minded people."

In following up on their pledges to provide excellent service, some businesses have developed powerful incentives. Norrell Temporary Services, in Atlanta, promises clients that they don't have to pay if they are disappointed with the performance of Norrell's temporary employees. Moreover, that commitment holds even if the reason for the dissatisfaction does not surface for several weeks. Bea Ruffin, Norrell's vice president of marketing, says that the promise of satisfaction is one of the reasons that "our rate of sales growth in the last five years has outstripped the average rate of growth for

What Customers Look For

In a research project on quality service, the Marketing Science Institute of Cambridge, Mass., asked customers of a wide range of service businesses, such as banking and appliance repair, what factors they considered most important in assuring their satisfaction with a product or a service.

The researchers found that these were the most important characteristics of quality service from the customers' viewpoints:

- **Reliability.** It topped the list of what customers expect of quality service. They want companies to perform the desired service dependably, accurately, and consistently. A major source of customer dissatisfaction is an unkept promise. Don't make promises you can't keep.
- **Responsiveness.** Companies should be helpful and provide prompt service. A business that answers or responds to telephone calls quickly meets this expectation.
- **Assurance.** A company's employees should be knowledgeable and courteous, customers say, and should convey confidence in the service they provide.
- **Empathy.** Customers want companies to provide individualized attention and to listen to them.
- **Tangibles.** Physical facilities and equipment should be attractive and clean, and employees should be well-groomed.

the temporary-employment industry as a whole."

The Visible Changes chain of hair salons, based in Houston, opened its doors with a strong commitment to quality service already in place. "We gave away haircuts for six weeks," says John McCormack, cofounder of the chain, "not because our hairdressers couldn't cut hair or because they weren't experienced, but because we felt the haircuts weren't up to our quality standards." Then, when quality reached the required level, customers willingly paid $15, and Visible Changes was on its way to success.

John and Maryanne McCormack, who are husband and wife as well as business partners, now own 16 Visible Changes salons with a total gross of $20 million a year, and their accomplishment spotlights the "people" factor in providing customer satisfaction. "The first step is setting standards," John McCormack says. "Then make sure everyone in the company understands those standards. Finally, reward people for achieving your standards and goals. If you reward your associates for superior performance, then your customers are going to get the service you ultimately wish to deliver."

The company holds motivational classes designed to build employees' service-oriented attitudes and enhance their confidence. In addition to six weeks of training, stylists take 12 advanced classes a year.

Complaints are recorded and reviewed by the individual salon managers. An employee named in three or more complaints within two weeks must meet with John McCormack at corporate headquarters in Houston. "Usually it's a personal problem," he says. "I give them time off to work things out."

A system of incentives and rewards is designed to make the stylists employed at Visible Changes feel and act like entrepreneurs, each with his or her own clientele. Those whose services are requested by repeat customers receive extra rewards. A stylist who doesn't achieve a 65 percent request rate within six months is asked to leave the firm.

McCormack describes the people factor this way: "If you take care of your employees, they will take care of your customers. There is not one company in America that has a problem as long as they have happy employees. If you don't have your people on your side, how can they help your business succeed?"

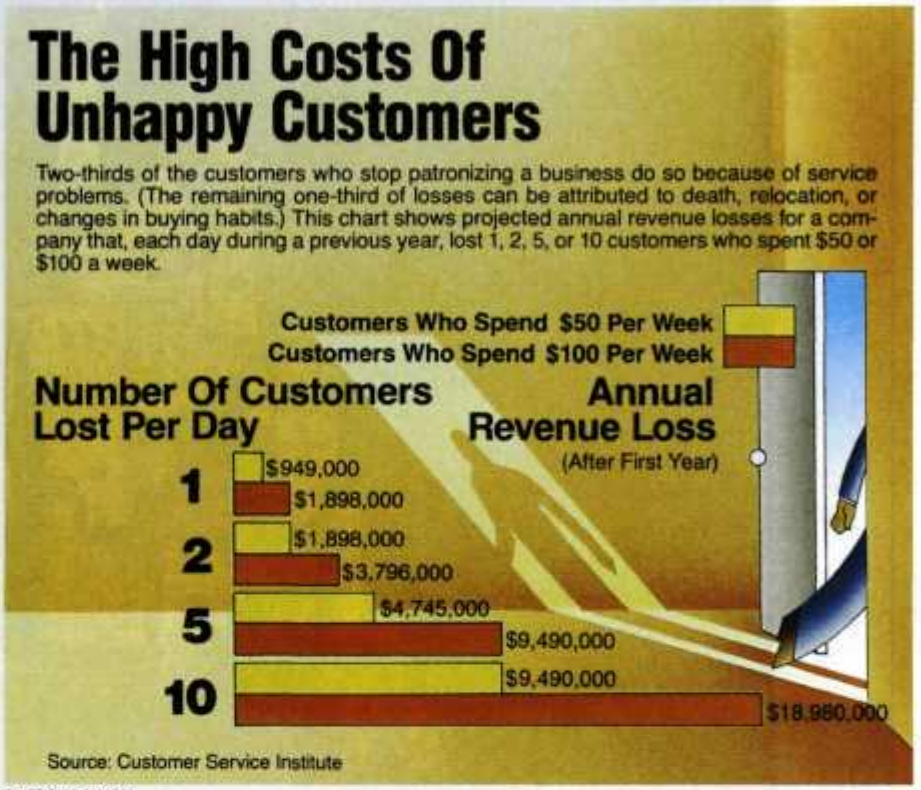


CHART: DALE GLASGOW

Karl Albrecht, writing in *At America's Service*, describes the employees' role this way: "Firms that embrace a customer-service philosophy see their organization as an inverted pyramid. Who's on top? Customers, of course. Every facet of the company is dedicated to supporting them and ensuring that their needs, expectations, and problems are dealt with satisfactorily.

"Next come supervisors, middle managers, and, finally—at the bottom—senior executives. This organization scheme, when implemented successfully, makes each level of management support the next, and everybody supports the customer."

Unfortunately, he adds, too many companies limit their service-improvement programs to "let's round up the employees and make them better people by giving them smile training."

Mini Maid Services, with franchises in 24 states, demonstrates the effectiveness of one of the most critical elements of quality service—the follow-up. Leone Ackerly, president and chief executive officer, reports that every customer is contacted the day after receiving service, and all comments, whether favorable or unfavorable, are recorded. This information is fed back to the employees who performed the service. "We're very quick to compliment and rarely criticize," Ackerly says.

Strong personal involvement by top management is also a critical factor in developing service-oriented attitudes among employees. "I motivate by example," Ackerly says. "Our Mini Maids and team leaders all know that the CEO knows what she's talking about—she's done it herself. Service quality starts with me and goes down to each franchisee and Mini Maid."

When he founded University National Bank & Trust Co. in Palo Alto, Calif., Chairman Carl Schmitt said he wanted to create an institution that provided customers with a high level of personal attention. The bank performs services such as sending messengers to pick up deposits, arranging after-hours appointments for business managers too busy to get to the bank during regular hours, free shoe shines for customers, and notifying customers of overdrafts instead of bouncing their checks and imposing penalties.

To maintain its service-based operation, the bank looks for experienced employees and uses its entire staff as recruiters. Says Vice President Ann Sonnenberg: "Existing employees get a referral fee for introducing successful new hires—people they may have worked with elsewhere who were outstanding. Our goal is to hire genuinely



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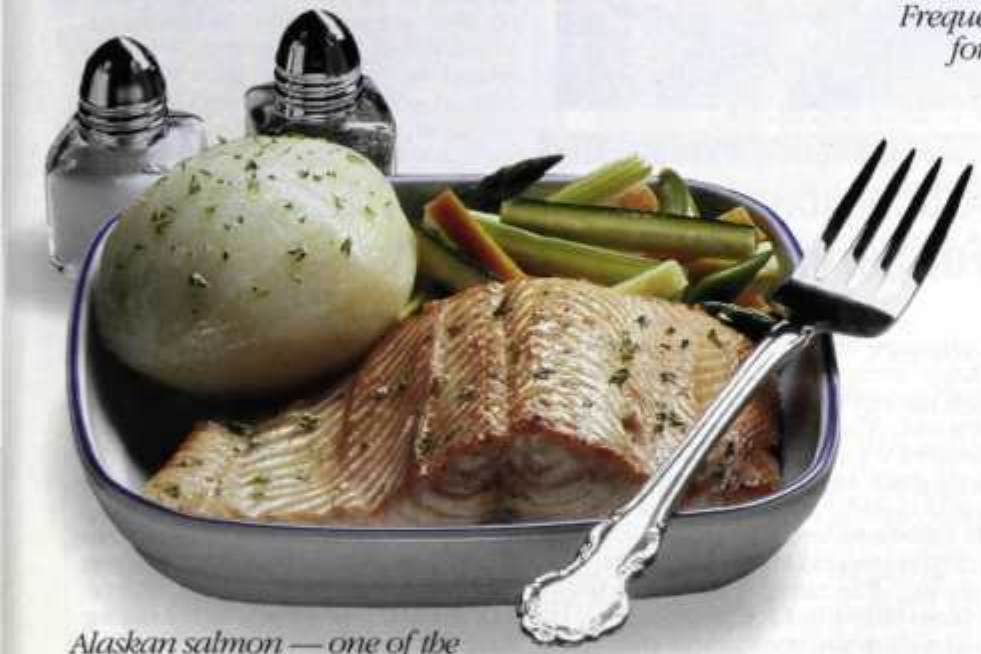


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Service = Survival

Service consultant and author Ron Zemke of Minneapolis says consumers are willing to pay a premium to have their needs met efficiently and in a timely manner.

nice people who are very capable and enjoy helping others."

An unusual way of building team spirit is the monthly Statement Day. Chairman Schmitt explains: "Everybody, including me, gathers on the third floor of the bank on the first day of the month to stuff statements into envelopes. This makes it possible to provide our customers with a special service—a statement arriving by mail on the second or third of the month. And it gives us a feeling of teamwork."

And in accord with the experts' contention that outstanding service improves a company's bottom line, University Bank reports that its return-on-assets ratio is 75 percent higher than the state average.

Service-oriented companies such as University Bank recognize an aspect of service that many firms overlook. As Warren Blanding of the Customer Service Institute points out, it is important to realize that customer service is an investment in future sales: "The current sale has already been made. You have convinced the customer to come into your shop or office and buy your product or service. But the way that first transaction is handled is the key to future business. One of the biggest single problems in customer service is the reluctance of managers to look on customer service as a marketing strategy. Too many see it as an after-sale service, something relating back to the previous sale rather than ahead to the next one.

"The customer makes a decision on the quality of service on the basis of the actions of the person handling the transaction, but that person often cannot control the level of service. When a customer sees a long line at a check-out stand and returns the product to the shelf rather than waiting to buy it, that's not the cashier's fault; that's inept management control of resources.

"If a manager gets a complaint that a service giver had alienated a customer through poor performance or even impoliteness, the first question that manager should ask is whether that service giver has been provided with the necessary resources to keep customers satisfied."

Managers also must realize that from the customer viewpoint, perhaps dozens of things can go wrong—from improper recording at the outset to late delivery on the other end. And a single mistake can alienate a customer. Blanding urges businesses to remember that "the missing link" in service is usually "the customer point of view." Think about it this way, he advises: "The secret of good service is to do things for a customer the way that customer would do them if given the opportunity."

Don Shapiro of First Concepts Development Corp. says that a business that is determined to improve service standards must begin with a firm commitment not only to achieve a much higher level of customer satisfaction but also to "consistently deliver this level of satisfaction even if it means lower profits in the short run."

Shapiro, who founded his company after working in restaurant, retail, and manufacturing jobs, tells business owners that achieving and maintaining a high level of customer satisfaction is related to "everything that everyone does in your organization. Every department, every function—management and nonmanagement, from the janitor to the chief executive officer—affects the customer decision on where to buy.

"One of the first recommendations I make to clients is that every employee spend time with customers every year—maybe a day and a half as a rule, but longer for higher-ups.

"Customer contact can make a big change in attitudes. Take the example of a sales representative who files an order, only to be told by the warehouse manager that it can't be filled the way the customer wants it. The sales rep should be able to instruct the manager: 'You tell the customer, eyeball-to-eyeball, that you can't do it.' An amazing thing happens when you do that. The manager starts seeing his function through the eyes of the customer, who sees the world a lot differently than the seller. It opens up a whole new world of reality."

Shapiro has this warning to businesses eager to improve customer satisfaction: "Examine your service policies to see if they are based on the actions of your problem customers, probably 1 percent of your total, who commit abuses and dishonest acts, or are they based on the actions of the 99-plus percent who are good, honest people?"

Some stores generate enormous customer good will by accepting returned merchandise with no questions asked, he says, even if the store knows, for example, that the daughter of the woman bringing back an evening gown wore it to her high-school prom over the weekend. Other



PHOTO: © STEVE WOIT—PICTURE GROUP

A Scorecard For Service

Customers of Wendy's, the fast-food chain, receive a scorecard on which they can evaluate the service they have received. The points covered, slightly modified for general use, can work as a good guide for any small business that wants to audit its own service or survey its own customers.

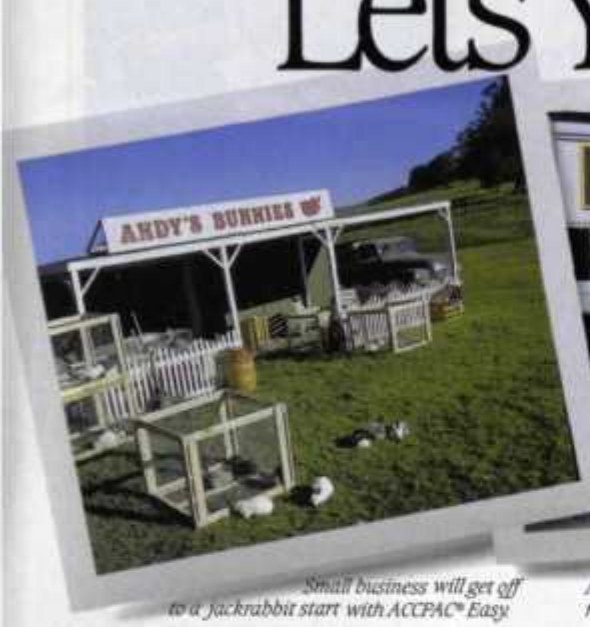
The scorecard asks, "How would you rate us?" The rating scale ranges from 5 for excellent to 1 for poor.

The scorecard covers these points:

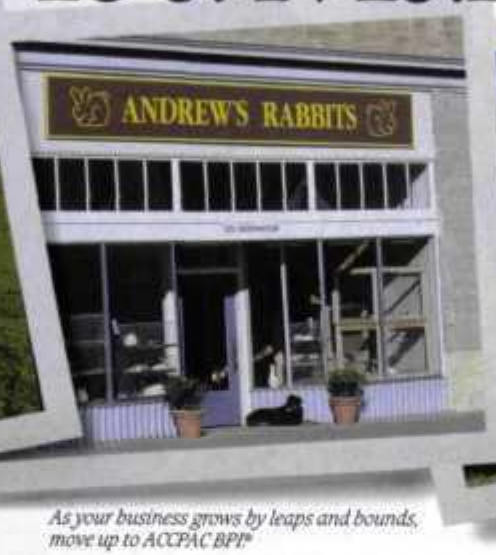
- Your overall experience on this occasion
- Quality
- Value for money
- Accuracy of order (inside)
- Accuracy of order (pickup)
- Service (courtesy, helpfulness, appearance)
- Greeting
- Speed of service
- Comfort and atmosphere
- Cleanliness

The final question asks how many times the customer has been in a Wendy's in the past month. The rating card also tells customers that if they are not satisfied after bringing any matter to the attention of a local manager, they are invited to telephone company President Ron Kirstien.

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Service = Survival

Mini Maid Services President and CEO Leone Ackerly, who meets daily with workers in Atlanta, says, "Service quality starts with me and goes down to each franchisee and Mini Maid."



PHOTO: T. MICHAEL KEZA

stores, Shapiro says, will make it as difficult as possible for a customer to return something. "Now which of these stores is more likely to win customer loyalty?" he asks.

Paul Hawken of Smith & Hawken, a mail-order house with a nationwide clientele for its garden tools, says a liberal return policy is more than a matter of good will; it's a measure of a company's confidence in its own products.

He points out in his book *Growing A Firm* that his company allows a customer to return "any product, anytime, for any reason—or no reason." Hawken says: "The most frugal thing we can do is be certain our products are of the highest quality. If it should cost us so much to replace products that we have to go out of business, then we should go out of business. A no-holds-barred return policy is the litmus test for quality."

Shapiro agrees with Blanding and other experts that one of the most critical areas is follow-up. That means not only prompt, effective service when a customer has a problem with a new product or service, Shapiro says, but also such things as routine calls to determine whether the customer is satisfied. "The customer expects the worst," he says. "Anything a business does of a positive nature to follow up on a sale exceeds customer expectations and is a strong plus for a business. Don't wait for problems to develop."

And don't assume that the absence of complaints means customers are satisfied; in fact, a business receiving few or no complaints courts trouble if it finds that situation reassuring. Albrecht warns: "A lot of research shows that most people don't complain. So you may have a very large dissatisfaction index and totally miss it if you don't engage in active investigation."

John Goodman, president of TARP, the Washington research firm, encourages businesses to set up feedback channels that include a toll-free, 800 telephone number. "It is very low-risk," he says. "If you don't get many calls, then you don't incur very much cost. And we find that each minute you spend on one of these calls is probably going to more than pay for itself in terms of enhanced profits and sales."

A recent TARP study, he reports, showed that 54 to 70 percent of customers who complain will do business with the target company again if the complaint is resolved satisfactorily. When customers felt there was a rapid resolution, the figure soars to 95 percent.

Sometimes, listening to customers can trigger massive changes in an organization. BellSouth Corp. was reacting to customer input when it decided in 1985 to try to recombine its business services and its equipment sales and maintenance operations, which had been scattered into separate subsidiaries as part of the original Bell System divestiture plan.

The Atlanta-based telecommunications company found that customers were confused and irritated because they had to deal with different organizations for each different need. Many wanted to go back to the old days, before the court-ordered break-up, when business customers could handle everything with one call to the telephone operating company.

That, essentially, is what BellSouth has done, with the Federal Communications Commission's permission. On Jan. 1, it restored "one-stop shopping" for business customers, becoming the first of the Bell companies to recombine its services and equipment sales and maintenance staff completely under the FCC's new rules. "We took this step because customers have told us time and again over the past five years that this is what they wanted," says Jere Drummond, senior vice president-marketing for BellSouth.

BellSouth's decision to reintegrate, which took four years to implement, was an outgrowth of what the company calls its "Customer First" strategy. That strategy includes almost continual measurements of the satisfaction levels of the large, midsized, and small businesses and the residential customers it serves within its nine-state area.

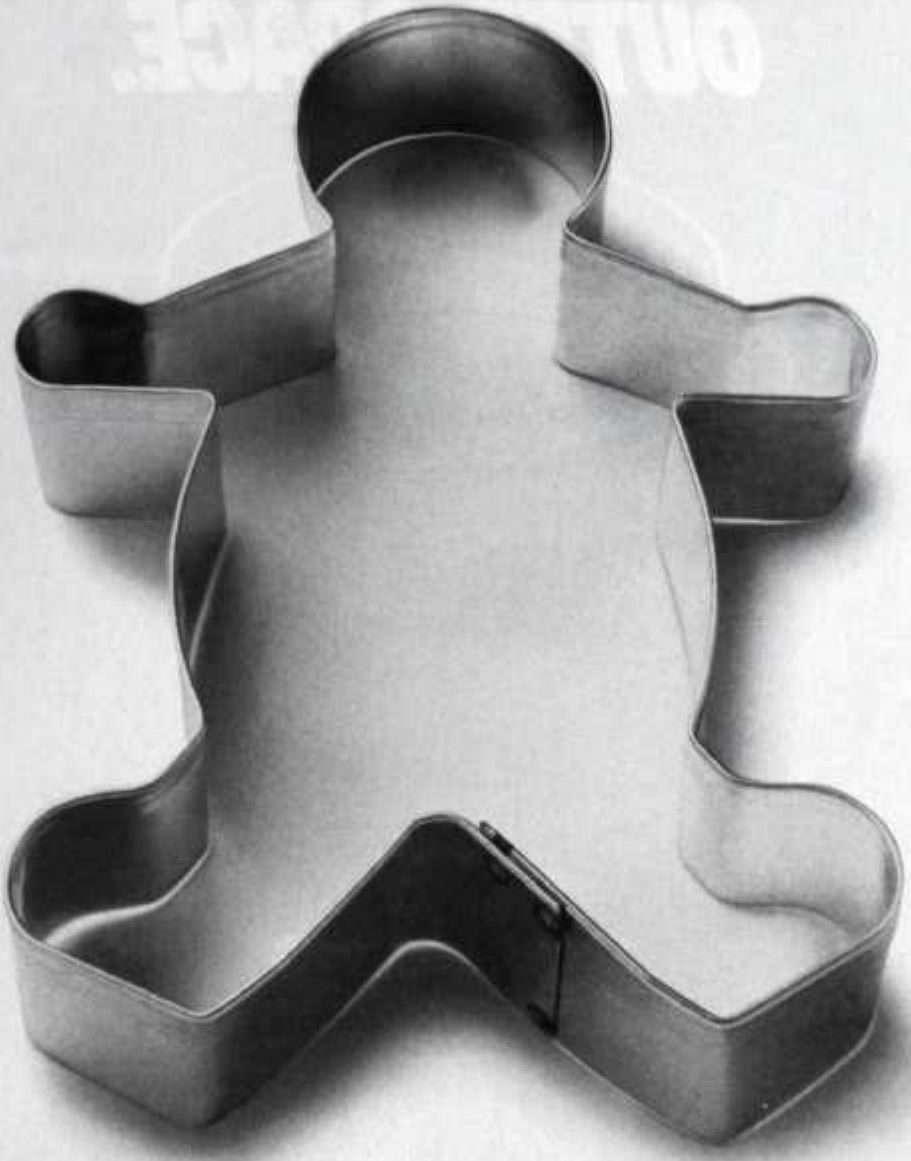
Major customers are contacted in person or by mail every year. Some 2,000 midsized and small businesses are surveyed randomly each month. Still another survey, called the Telephone Service Attitude Measurement, tells the company each month what's on the minds of some 35,000 residential and business users with one or two telephone lines.

"We promise customers that we will do everything possible to provide faultless service and to stand behind the service we provide," explains Drummond. "We judge our performance by their standards, and one of those standards is being easy to do business with."

Companies of all sizes are adopting a similar philosophy, consultant Ron Zemke says, and the service situation throughout American business can be summed up this way: "Today more and more organizations than ever before have taken up the challenge of providing superior service to their customers. They are listening, responding, and taking new, even novel approaches to creating and managing high-quality service. . . . Granted, the battle to eradicate mundane, lackadaisical, ineffective service is far from over. But we are finally getting a handle on how it should be waged." NB

To order reprints of this article, see Page 72.

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A Corner On Water Beds

Where can I find water-bed distributors in Europe?
S.Y., Santa Fe Springs, Calif.

Apparently, there aren't any. The U.S. seems to have a corner on the market, according to the Water Bed Manufacturers Association. The association, which represents more than 300 U.S. manufacturers, knows of no manufacturers or distributors in Europe. In fact, it receives occasional letters like yours from would-be entrepreneurs in Europe. The association advises that if you want to sell water beds in Europe, export them from the U.S.

You can learn a lot about what's available and who offers it by obtaining the association's free buyer's guide. Write or call the organization at 2500 Wilshire Blvd., Suite 603, Los Angeles, Calif. 90057; (213) 417-8075.

Profitable Retirement

Since retirement is just a few years away, I am interested in a profitable hobby to do at home. Where do I get information on the equipment necessary to make signs, nameplates in plastic, and brass plates for trophies? And where can this equipment be purchased?
H.M., Lewes, Del.

The Trophy Dealers and Manufacturers Association will send you a brochure called "Getting Started in the Awards Business." The association also will tell you how to get in touch with the director of its Delaware chapter, who could help answer your questions about suppliers and equipment. Write or call the association at 4644 West Jennifer St., Suite 101, Fresno, Calif. 93722; (209) 275-5100.

Another Fish Story

I live in Owls Head, Maine, and would like to open a business that would provide Florida resort hotels with the freshest Maine seafoods. How do I get the required licenses and find hotels that might be receptive to my idea?
K.R., Owls Head, Maine

Before you can do business in the Sunshine State, you must purchase a wholesale dealer's license from the Saltwater Licensing and Permits Division of the Florida Department of Natural Resources. For nonresidents, the permit costs $500 to do business within a single county, and $1,000 to do business statewide. Contact the office at 3900 Commonwealth Blvd., Tallahassee, Fla. 32399; (904) 487-3122.

Choose the counties where you want to operate and contact the visitor and convention centers for information on local resort hotels. You might also contact fish wholesalers in each area for advice about breaking into the market.

Aiding Cancer Victims

I am interested in opening a retail business specializing in breast prostheses, lingerie, and wigs for women who have had a mastectomy and/or treatments that have caused hair loss. How would I go about contacting potential suppliers and manufacturers?
L.C.S., Fort Walton Beach, Fla.

Beverly Deason, service director of the American Cancer Society's office in Tampa, has a number of suggestions for you. While the society does not promote products, upon request it will give a woman a list of stores in her area that fit breast prostheses. The Cancer Society's Tampa office is at 1001 South MacDill Ave., Tampa, Fla. 33629; (813) 253-0541.

You also can ask local department stores about their suppliers for prostheses and lingerie. Or you can go to a library and look up manufacturers in the *Thomas Register of Manufacturers* or *The Facts On File Directory of Major Public Corporations*. Ask the manufacturers if they provide training in proper fitting of their products.

To find the names of wig manufacturers, call your local cosmetology board.

Just For The Sport Of It

I am very interested in opening a recreational-equipment store. Where can I obtain more information about setting up such a store?
M.S., Waldron, Ark.

The National Sporting Goods Association has a buying guide that lists 8,000 suppliers of recreational and outdoor equipment. You have to join the association and pay the $90 annual membership fee to get a copy of the guide. It goes to members only. The association also provides a wide variety of services and publications, including information on store designs, display techniques, credit-card purchases, and employee-handbook suggestions. For details, write the National Sporting Goods Association, Membership Services, 1699 Wall St., Mount Prospect, Ill. 60056; (312) 439-4000.

Filling Tall Orders

I want to open a retail shop offering fashions for tall women. Where do I find suppliers and distributors?
T.S., Nicholasville, Ky.

The American Apparel Manufacturers Association publishes a directory of 450 manufacturers, listing types of garments made by each. The directory costs $100, paid in advance. Send a check or money order to the association at 2500 Wilson Blvd., Suite 301, Arlington, Va. 22201; (703) 524-1864.

How To Ask

Have a business-related question?

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MANAGING YOUR BUSINESS

Tests To Target Dependability

Many companies use dependability tests to forecast an applicant's likelihood for success on the job.

By Thomas J. Burns

In 1985, when he became director of personnel for retail stores at the Morse Shoe Co. in Canton, Mass., Mark Rich faced two of the most serious problems in retailing: a high turnover rate and annual losses of millions of dollars through employee theft and paperwork errors.

"Most of our problems were with newly hired assistant managers," Rich says. "Too many were being fired for cause. I realized that if we had a better means of pre-employment screening, a more accurate way of predicting on-the-job success, we would cut our costs dramatically *and* improve our service."

Like most businesses, Morse Shoe had relied only upon traditional methods of employee selection: evaluations of applications, applicants' previous experience, interviews, and reference checks. "Although these techniques have a certain value, they must be used by highly trained, experienced executives to be good predictors of success," Rich says.

In taking various measures to solve the problems in the firm's retail Fayva division, Rich introduced a relatively new and promising psychological-testing method: a dependability test. It was similar to the first such test, which was developed for Macy's department stores. The dependability test, an adaptation of what industrial psychologists term "trait testing," was developed by Stanard & Associates Inc., a Chicago psychological-consulting firm specializing in test development. This variation on trait testing examines and evaluates an employee's or applicant's attitudes, practices, and values that are job-related, as opposed to a cognitive test, which deals with the ability to reason and learn.

"We call it a dependability test since that name seems to best describe what it does," says Steven Stanard, president of Stanard & Associates. "Although it is used primarily with applicants for nonmanagement positions, it is also used for entry-level management positions. The test predicts who will probably be successful by identifying those who are likely to be punctual, conscientious in their attendance, good producers, and honest. Those applicants who do not have these qualities are eliminated."



PHOTO: ©RICK FRIEDMAN—BLACK STAR

Mark Rich, personnel director of the Morse Shoe Co.'s retail stores, and Margaret Liquori, store services manager, discuss the company's introduction of dependability testing.

Says Rich: "I realized that if we had a . . . more accurate way of predicting on-the-job success, we would cut our costs dramatically and *improve our service."*

Each dependability test that is designed for a company is validated to show there is a clear relationship between a certain test result and job performance.

For the dependability tests developed for companies such as PhotoMat, Yellow Freight, Macy's, Morse Shoe, and Carter Hawley Hale Stores, extensive validation studies involving thousands of employees were conducted by Stanard & Associates.

Rich says that dependability testing has proved valuable at Morse Shoe. "Our losses have been reduced by about one-third in the first year. Our other efforts have certainly helped, but the use of dependability testing in pre-employment screening has played a significant part."

In businesses where job failure and turnover can be costly, it is welcome news that there is a paper-and-pencil psychological test that can accurately predict whether an applicant will succeed in the job that he or she is seeking. According to estimates by the U.S. Department of Commerce, annual losses from employee theft might run as high as $40 billion, and the cost of turnover is staggering.

The use of psychological tests to screen job candidates is hardly new. Many major corporations use psychological tests routinely. According to Sanford Hotchkiss, an industrial psychologist in Youngstown, Ohio, "Pre-employment testing is the bread-and-butter business of many consulting firms. Millions of such tests are given each year."

Many other pre-employment tests are administered by employers both large and small, but problems may arise with them. Although many psychological tests used in pre-employment screening are designed to be administered and scored by nonprofessionals, errors can occur when such tests are interpreted by wholly untrained persons such as assistant managers, secretaries, or receptionists.

Examples of such tests that are often relied upon by nonprofessionals are "honesty" or "integrity" tests, which

Thomas J. Burns is a free-lance writer in New Castle, Pa.

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Tests To Target Dependability

predate the dependability tests. These paper-and-pencil tests are easy to obtain and administer, and they are said to measure the probability that a person will be honest. But such tests have a poor track record, according to Dennis Sweeney, an industrial psychologist and vice president of Partners In Change, a Pittsburgh consulting firm. "There are a number of serious problems with such tests," he says. "Research on them is uniformly unencouraging, and there has been almost no independent confirmation of test validity.

"Many of the questions are rather transparent in their intent, and the tests tend to screen out naive applicants while allowing sociopathic personalities to pass undetected. They are the ones who can *really* hurt a business."

Furthermore, almost all of the "honesty and integrity" tests do little more than predict how people would do on a polygraph examination, not how they would do at a job. This is because the polygraph was used as the standard of accuracy by the designers of the tests. But the polygraph, long a favorite tool of business in a variety of circumstances, will soon play almost no role in private employment situations; as a result of a recently enacted federal law, polygraph use has been effectively prohibited except in special cases.

In certain ways, dependability testing seems very much like many of its predecessors in the field. "There are a number of significant differences between dependability testing and the 'honesty and integrity' tests," Stanard says. "First, dependability testing tests for a broad range of negative behavioral characteristics—all the reasons why someone would be unsuitable for a job; 'honesty' testing focuses on honesty/integrity and the likelihood of stealing.

"Secondly, the intent of the questions on 'honesty/integrity' tests is transparent, but a job candidate cannot tell the purpose of the questions on a dependability test.

"A third difference is that dependability testing is not based upon polygraph results but upon real-life results. It is constructed so as to test for those qualities that have been shown to be job-related for any job being studied rather than attempt to meet any other theoretical standard."

The basic theory behind such a dependability test is that if a person has the values, the attitudes, and the habits of a successful salesperson, he or she will probably behave like a successful salesperson. Conversely, if someone is found to have the values, attitudes, and habits of employees who have been tardy, absent, or caught stealing, it is just as probable that he or she will eventually behave in the same way.

Steven Stanard, psychologist and president of Stanard & Associates, says dependability testing examines job-success traits, not just an applicant's honesty.



PHOTO: ©RICHARD DERK

"No single area becomes too important in the evaluation of a job candidate with dependability testing," Stanard says. "Instead, it is a matter of finding a pattern, a mosaic of individual points that give direction and meaning to the results. The specific areas which the test predicts are job performance, tendency toward dishonesty, absenteeism, tardiness, and interpersonal relationships."

Each company must have a separately developed and validated dependability test because of the differences among jobs and settings in different companies. Even within a company, patterns of successful work behavior vary from one job to the next. The traits and skills needed to be a good store manager, for example, differ from those required to be a good salesclerk.

The typical cost of developing the test is $20,000 to $30,000, but each company owns the test developed for it, so the average cost of administering the test declines as it is used through the years, according to Stanard & Associates. For a firm with about 3,000 employees, for instance, the average cost of the test can be about 30 cents.

The questions used in each test are similar and deceptively simple. Some are designed to reveal behavioral patterns ("In school I sometimes had to go to the principal's office for acting up"). Some call for objective information ("What was your standing in your high-school class?"). Some are designed to reveal the person's self-image and level of confidence ("Most people are not as strict about right and wrong as I am"). And some reveal social attitudes ("It bothers me when a smart lawyer uses the law to get a criminal off free").

Although such questions may seem simplistic, few test takers seem able to bluff their way past the test's overall findings. "A candidate may lie on any one question, but a pattern emerges which allows generally accurate predictions when the test is complete," Stanard says.

Usually, each company scores its own tests. Some have a pass-fail cutoff, and others employ a system allowing for a range of scores. Subjective judgments and other facts are usually incorporated into the hiring process as well.

Ken Bernard, owner of Bernard & Associates, a consulting firm in Holmes Beach, Fla., is enthusiastic about the use of the dependability test in pre-employment screening. "There's no doubt that the test is able to make highly accurate predictions," he says. "That means reducing the number of new hires who do not work out and cutting employee theft significantly. And *that* allows for greater productivity and efficiency. Eventually, a business can save a lot of money."

Bernard employed the test experimentally early last year with a Florida restaurant that was experiencing severe losses from internal theft and employee turnover.

Bernard says that starting in January he administered the test to a total sample of 160 people—"140 were applicants [whose hiring was not influenced by the outcome of the test], and 20 were current employees. At the end of six months, we compared the predictions with the terminations that had been made. The correlation was very high."

Paul Gorsky, director of human-resource services for Carter Hawley Hale Stores Inc. in Los Angeles, agrees that dependability testing can be of significant value in selecting employees. He says: "We began using dependability testing in 1987 to reduce the number of employees who would have to be dismissed for cause—theft or a serious violation of our rules. This was the first time we had used psychological testing; previously, we had always relied upon the standard methods of employee selection."

As with all individually developed tests, it was necessary to validate the test by administering it to a sample of job applicants and comparing predictions with actual results six months later.

"We have been using the test in actual hiring decisions for only a relatively short time," Gorsky says, "but our preliminary figures show a 10 percent decrease in terminations for cause. I can't yet attach a dollar figure to that since other measures are involved, but our savings stand to be substantial."

The experience so far with dependability tests has shown they work best with businesses that have many employees and experience a high turnover rate of nonmanagement personnel, such as large retail establishments with numerous outlets or banks with many branches.

(If you want more information to help you decide if dependability testing might help your company's hiring procedures, you can call Stanard & Associates at 1-800-367-6919 or, in Illinois, (312) 337-1729, or you can write to the company at Suite 600, 180 North Michigan Ave., Chicago, Ill. 60601.)

No test is perfect, and dependability testing can make predictions only in terms of probabilities, but it seems clear that this is a major advance in pre-employment screening and will enable many companies to upgrade the quality of new hires, thereby reducing turnover, cutting losses, and improving customer service. NB

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Bridging Your Workers' "Motivation Gap"

By Dennis T. Jaffe and Cynthia D. Scott



PHOTO: ©DUANE HALL—VIS-TEC

Fuzzy bears that sit in on meetings have helped Buddy Eanes and son Richard relieve employee tensions at Warren Trucking in Martinsville, Va.

Managers often assume their workers want the traditional incentives: more money, promotions, and job security. But these may not be what really motivates your employees.

In a Rutgers University study, employees from several companies were asked what made them willing to do their best work. They named respect for them as people, allowance for their own individual preferences and needs, and information about what their company was up to and the reasons behind decisions and policies.

We call this the "Motivation Gap"—the difference between what managers think employees want and what employees really want. If you're one of the many managers who think that employees just don't want to work any more, maybe you're operating under the old assumptions about what motivates people. If so, you could be hindering yourself from tapping into the desire of most people to do more, to do better, and to help their companies meet the challenges of the '90s.

The new motivators are not scarce resources. Any company can provide them, even during tough times.

Not long ago, E.R. "Buddy" Eanes Jr., president of Warren Trucking Co. in Martinsville, Va., faced up to the challenge of motivating 120 drivers and other employees. In 1982, hard times led to a strike and a wage rollback that left his drivers and warehousemen disappointed and angry, his office staff apprehensive, and his cash flow stagnant. Although he had always considered himself a caring and enlightened manager, Eanes found that, after this painful period, he needed to re-establish trust.

Eanes and his son, Richard, the company's executive vice president, were ready to try some new approaches to restore the "spirit" of Warren Trucking and build an organization where people could grow and prosper. Their first step was to set an example. "We didn't have much to share financially, so we threw ourselves into the business. We got involved where employees could see it," says Eanes. "Richard and I would often put our jackets on and go into the warehouse and help load trucks."

In many small ways, Buddy and Richard Eanes showed their people that they cared. For example, to reduce the stress that long-distance driving could cause not only the drivers but also their families, Warren Trucking now arranges schedules so that drivers can be home several nights a week. The company also provides stress-management seminars for employees and hosts monthly meetings to help wives cope with the challenges of being a driver's spouse. Warren Trucking's goal, says Eanes, was to create a community-like atmosphere for its employees.

But just caring for people wasn't enough. The next step was to involve employees in rethinking how the company worked. For example, 10 key employees now work together weekly with Richard and Buddy to solve problems, and their efforts have cut costs.

Buddy Eanes found that his new approach to employees works. Sales have more than doubled in two years. He wants to give key employees a financial stake in the firm and make them partners in its success.

Motivating employees is no longer simply a carrot-and-stick process of providing financial incentives and penalizing failure. Sometimes the carrot doesn't do the job. Recently we ran a management-development seminar for the inexperienced sales staff of an ap-

Dennis T. Jaffe and Cynthia D. Scott are organization consultants in San Francisco and are the authors of Take This Job and Love It *(Simon and Schuster Inc., New York).*

It takes more than money to motivate workers. They also must feel they are partners in making your business succeed. Here are tips on how to unleash employees' natural desire to do their best.

parel company. To our surprise, the sales manager stood up during the session and expressed concern about the orders crunch. Sales representatives were sometimes weeks late in writing orders. So, she was having a contest: The person who completed the most orders would receive brunch for two at a pricey restaurant. The reps looked at each other in embarrassed silence. While the sales manager's attempt to spur them on was out of place, it told us a lot about her operation.

We found that these young salespeople were frustrated at being told what to do and at not having the skills to accomplish goals or the permission to work together to figure out how to get things done. They needed training and support to help each other learn the job, not Sunday brunch. The sales manager was not taking the time to listen to her people, and she was using the wrong motivators. In short, she was operating under the Motivation Gap.

The Motivation Gap appears to stem from a value shift in the work force. Social researcher Daniel Yankelovich suggests that in the 1960s, a desire for personal growth and self-expression in work and in life—voiced initially by younger people—spread quickly throughout the population. He says that perhaps 80 percent of the work force expresses these new "inner-directed" values.

Today's workers want challenge and personal meaning from their jobs, a chance to have a part in creating the future of their company, and personal respect as self-directing adults. Using internal motivators—workers' desire to do a good job and use their abilities—is not a substitute for the traditional trio of raises, promotions, and job security. But when you as a business owner or manager see workers who are apathetic, who neglect obvious ways to help the company, or who don't seem to be working up to their potential, your search for motivation should begin with the assumption that people want to do their best. They just may need to be invited to do so. Employees want to feel they are partners in making your business work, and when their energy is flagging, they probably need more involvement, not less.



PHOTO: ©DUANE HALL—VIS-TEC

Motivational efforts have doubled sales, says Buddy Eanes, pouring coffee with employees Ronnie Reever, Phyllis Fulcher, and Gene Price.

The following five suggestions can help you unleash the natural desire of your employees to do their best work:

1. Cut them loose to solve problems. While many companies use plaques and other means to recognize employees, they frequently miss the everyday ways to get people involved and committed.

It may take a while for your employees to get used to the fact that you really expect them to use their judgment and improvise solutions. But once the message sinks in, your staff will feel excited about problem-solving and about representing your company to the community.

2. Let work groups decide how to get the job done. In working at a Los Angeles hospital with surgical-service nurses who said they felt burned out, we looked at what frustrated their ability to do their job well. "I'm not burned out from overwork but from not being able to do what a nurse should really be doing—helping patients to heal," one nurse said. She and other nurses complained that they were asked only to be servants and could never do things that really made a difference. One suggested there might be better ways to organize the service. That prompted responses such as: "Why can't we let patients get their own snacks from the refrigerator? Why can't people eat together? Why can't patients have the opportunity to help each other?"

The mood brightened as they began to rethink how they did things. Many of their proposed changes were accepted. The doctors and administrators, while initially skeptical, became excited about working in what became the most spirited part of the hospital.

3. Keep people informed about what is going on. Information is catnip in an organization. Lack of information about crises or challenges leads employees to become apathetic or to take a wait-and-see attitude.

The field crews in a troubled construction company were told to do their best, yet the company lost money on every contract. But when the crews were given cost data and were made responsible for purchasing and cost control, costs dropped and quality remained. Information helped them discover how they could improve things. When information is supplied, people feel respected; they also feel invited to help resolve problems.

4. Offer flexible work rules to fit individual needs. Traditionally, compa-

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MANAGING YOUR BUSINESS

Bridging Your Workers' "Motivation Gap"

nies have one work schedule for everybody. Today's new work force doesn't want that kind of regimentation. Why shouldn't some employees come in at 6 a.m. and be able to see their children after school, while the night owls who have trouble getting started early come in at 10 a.m. and work later? What about people who find they can be more productive by taking a day at their home computer from time to time?

Flextime arrangements are increasingly common. Though you may be dubious about them, the point is to focus on results: People working at home or setting their own hours should be held accountable for achieving weekly goals. To ensure communication, establish core hours each week when everyone is expected to be on site for staff meetings or other activities.

Many employees lose motivation when their company demands that they fit themselves into a rigid schedule. A company that offers employees flexibility will be rewarded by more productivity and worker satisfaction.

5. Stretch jobs to offer variety and growth. Any job can become stale after a few years. When the thrill wears off, motivation lags. The solution is to create opportunities for learning new skills and for shifting assignments and taking on new responsibilities.

Every job, no matter how specialized, can be reconfigured to offer a new challenge. A salesclerk can learn some of the duties of a buyer, and a benefits manager can learn to do some training. Some companies offer seminars, speakers, and even team-building wilderness excursions to help managers grow in their management abilities.

Such learning experiences can enable employees to see new possibilities in old jobs.

If your employees seem less involved than they used to be, or aren't contributing all that they could, you do not have to start looking for financial incentives or new workers. Instead, look for ways to reinvolve people. Your employees probably need new responsibility and challenge more than they need a testimonial dinner.

These new motivators will create an environment in which your employees want to work. They will uncover hidden resources and skills, your company will run more productively, and you will find the cost is minimal. **NB**

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Wider Uses For Bar Codes

No longer just for speeding supermarket checkouts, bar codes can help small businesses track inventory, generate sales, and cut costs.

By Leila Davis

Faster, more accurate data entry, better document tracking, reduced inventory costs, increased sales—such benefits as these are now within the reach of any size business with the wave of a wand. It's not magic, it's bar-code technology, and its capabilities are being applied with sometimes startling results by firms that range from defense contractors to libraries.

Bar codes are the printed patterns of lines, spaces, and numerals that appear on most packaged products. The codes can be read with a hand-held wand that instantly transmits an enormous amount of data to a computer. This eliminates the more time-consuming and usually less accurate processes of manual keystroking.

The technology is not new, and it is relatively simple. However, it has taken over a decade for economies of scale and the penetration of computers into all levels of business to enable bar coding to produce the kinds of savings that businesses are now seeing, mainly through reductions in worker hours spent in gathering and recording data.

For example, before bar coding was instituted at Tate Andale, a Baltimore metal-fabricating firm, recording inventory each year "required 24 people working two days," says Milt Thacker, the company's data-processing manager. "Then it would take 30 to 40 hours in the office to key in the data. With hand-held bar-code scanners, it takes four people eight hours in the warehouse, and manual data entry is eliminated. Not only do we save a tremendous amount of time, but the accuracy of our data is way up."

Other firms report benefits from using bar-code systems to track documents on microfilm, to follow the processing of materials in factories, to record billing time, and even to replace time clocks. Many firms begin using bar codes to record their inventory and then discover other applications for the technology.

One company that developed its own ways to use bar-code technology—and with an unexpected result—is Wasserott's Inc., in Lucerne, Pa. Wasserott's, which furnishes supplies for physicians and home health-care providers, has discovered that its use of bar codes has increased its market share while it saves time for its customers.

Leila Davis is a free-lance writer in Alexandria, Va.



PHOTO: T. MICHAEL KEZA



PHOTO: © SAL DI MARCO—BLACK STAR

Bar-code equipment is used for taking inventory by Milt Thacker, above, at Tate Andale, a metal-fabricating company, and by an employee at Wasserott's, a medical-supplies firm.

Wasserott's prints and installs bar-code labels on the shelves of its physicians' supply closets, and it gives doctors' staff members portable data-collection units for tracking inventory. The inventory data are transmitted by phone to a computer at Wasserott's. When the supply of a product in a physician's storage closet declines to a level approaching a pre-established minimum, an order for a resupply of that product is generated automatically.

Leonard Simpson, company treasurer, explains how the technology has helped Wasserott's increase its market share: "The doctors used to shop around, buying certain items from us, and buying other items that they could get cheaper from our competitors. Now they buy everything from us, because it saves so much on manpower that they are cost-justified, and it gives the doctor much tighter inventory control."

Bar-code technology was pioneered by the food industry in the 1970s. A bar-code standard called the Universal Product Code has given grocery stores faster, more accurate checkout procedures and better inventory control. In 1982, the Department of Defense gave bar coding a boost by employing its own bar-code standard for thousands of goods it receives.

Today, it is economically feasible for most businesses to generate their own bar-code labels, opening up a new



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range of applications beyond retailing, where products are given bar codes by their manufacturers. Trade associations and interindustry councils have given rise to standards, application support groups, and educational resources.

At first, Tate Andale used a third-party vendor for the bar-coded labels, but it quickly decided to invest $8,000 in a personal computer, scanners, a printer, and software. Says data-processing manager Thacker: "We use infrared label stock and a thermal printer, then we coat the label with laminated tape. This way the label doesn't have to be clean to get a good reading."

Tate Andale is now replacing time cards on the shop floor with bar-coded badges and scanners. Thacker also plans to use bar codes to measure the efficiency of workers and machines. Workers will "scan in" when beginning their work on a particular machine, and their time then can be measured against the standard set for the machine. Thacker also plans to use bar codes on raw materials as they go through the shop floor; they will be scanned at each work station so that their flow can be tracked.

"The time savings are great and have saved us a lot, but the biggest thing I get out of all bar-code applications is the accuracy of the data," Thacker says. "Bar coding helps even your non-detail-oriented employees be detail-oriented."

Thacker says most bar-code systems easily pay for themselves within the first year. Wasserott's Leonard Simpson agrees. His company handles 10,000 wheelchair rentals a month through its Medicare Services unit, and its hand-typed ticket system was not always accurate. Bar coding keeps track of the equipment and also automatically generates an accurate Medicare claim when the equipment is returned.

"We have eliminated one full-time keying position, at $7 per hour, and we have cut our error rate down to almost nothing," says Simpson. He says that bar coding "saves 8 to 10 hours a week on manual correction of errors. The biggest problem was going back through 10,000 tickets to find an error."

The complete system cost Wasserott's about $11,000, including the personal computer, the printer, software, and the communications links between the PC and the mainframe. The customized software that generates the labels for the patient accounts cost $2,000.

New uses for bar coding are cropping up all the time, says William Hakanson, executive director of the bar-coding industry's trade group, Automatic Identification Manufacturers Inc. (AIM). Document tracking is one of the fastest-growing uses for bar codes, he says. Law firms are starting to use bar codes to track the time that lawyers and staff members spend on each client's file.

"If a small business has an application for bar coding, there may not be an off-the-shelf solution yet, but that doesn't mean you can't implement [one]," says Hakanson. He recommends that you find a vendor, or a value-added reseller who can modify a system for your particular needs. In sum, Hakanson says, if your company could use bar coding but you think that choosing the right system might be a problem, get help to "develop a solution. The benefits are worth being creative." NB

To order reprints of this article, see Page 72.

For More Information

Bar-code technology is simple, but the variety of types of equipment and the number of vendors, value-added resellers, and systems integrators can be bewildering. Before investing in a bar-code system, a business owner should analyze carefully the potential uses of the equipment.

For a list of vendors offering bar-code equipment, ask Automatic Identification Manufacturers Inc. (AIM) for a copy of its membership directory. The vendors themselves can refer you to resellers and integrators who offer packages appropriate for your applications.

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Partners In Entrepreneurship

By Sharon Nelton

Contrary to popular belief, a husband and wife going into business together aren't necessarily jeopardizing their marriage. According to Frank and Sharan Barnett, couples who become entrepreneurs together are people who have chosen to embark on a new joint lifestyle, rejecting the way that the world of work often assumes control of people's lives and isolates them from their families. "In many ways, these couples have successfully blended those two realms, the work and the personal, into a harmonious whole," say the Barnetts, authors of *Working Together: Entrepreneurial Couples* (Ten Speed Press, Berkeley, Calif.).

The book is based on their experience in jointly running their own advertising business in Aptos, Calif., and on the experiences of 24 other couples interviewed by the Barnetts for the project. Those couples range in occupation from a square-dance-calling team in Phoenix, Ariz., to Ted and Joyce Rice, the founders of T.J. Cinnamons, a $50-million-a-year franchise bakery chain based in Kansas City, Mo.

"Copreneurs" is the term that the Barnetts use in referring to entrepreneurial couples, saying a new term was needed "to describe the egalitarian entrepreneurial relationships that exist in growing numbers in today's business community."

The couples they interviewed were chosen because the husbands and wives appeared to have equal relationships within their businesses.

The number of couples in nonfarm sole proprietorships rose by nearly a quarter of a million—from 257,899 to 482,933—from 1977 to 1985. But because there are no statistics on partnerships or corporations headed by couples, the Barnetts say, "it is impossible to obtain a true picture of the invisible force that copreneurial couples are exerting on the economy today." They found that 70 percent of the businesses represented in their book were corporations.

In the Barnetts' view, "copreneurs" have a much better chance of having a successful marriage than do couples with just one partner an entrepreneur. "A business can be a very demanding mistress," the Barnetts write. "If either partner in the businesses we explored had established and maintained their enterprise as an entrepreneur rather than as copreneurs, their personal lives would have been greatly affected."



PHOTO: ©KAREN T. BORCHERS

Frank and Sharan Barnett of Eugene, Ore., have written a book and started an organization for couples in business together.

The Barnetts found that "many entrepreneurs whose spouses are not involved in their business acknowledge that the pressures of their enterprise can place strains upon personal relationships that often escalate to the breaking point. Copreneurs are entrepreneurs who never need to go home and explain to an uninvolved spouse what's going on at work. The inevitable late hours, setbacks, and losses as well as the discoveries, triumphs, and growth are all understood and shared equally between these partners."

Couples with a healthy relationship are in command of four factors that give them a winning edge if they start a business, say the Barnetts. Such couples are free of interpersonal competition and can use their energies to compete together with the outside world; they have open communication; they trust each other; and they share the same objectives.

The Barnetts this winter closed their advertising business and have moved to Eugene, Ore., to be nearer to two of their three children and to continue working together as writers. Their method of working might drive many of us crazy—they sit together at one computer, sharing the same keyboard.

They acknowledge that "copreneur-

For Business Couples

Couples who work together may wish to consider joining the National Association of Entrepreneurial Couples.

NAEC will offer seminars, workshops, and a quarterly newsletter. But its major purpose is to provide members with an opportunity to share personal and business advice with one another. For a sample copy of the newsletter "Copreneurs" and information about NAEC, send a self-addressed, stamped business envelope with your request to NAEC at 68 Crest Drive, Eugene, Ore. 97405.

In a marriage, two entrepreneurs are better than one, say a husband-and-wife writing team with a new book on "copreneurs." This roundup also notes the rapid growth of women-owned businesses and the benefits of a philanthropic public image for your firm.

ing" is not for everyone. But they are, nevertheless, ardent advocates of the idea. They close their book with the story of Mayflower Transit Inc., which became very enthusiastic about contracting with husband-and-wife driving teams when it learned how beneficial such couples were to Mayflower.

"Mayflower discovered that having a wife on the truck resulted in the team taking better care of the customer's possessions," Mayflower traffic manager Eric Anders told the Barnetts. "With these teams, there seemed to be dramatic reduction in claims for damage. ... The female drivers identified with 'Mrs. Customer,' making sure an extra wrap went on something fragile, and it took the pressure and stress off the client to have a woman involved in the move."

Mayflower also found that because couples working together are more content, they can be kept on the road longer than other drivers—meaning more profit for Mayflower and more profit for the contractors.

"The business community has much to gain from partnerships with entrepreneurial couples," say the Barnetts. "As contractors, franchisees, employees, or commissioned sales representatives, couples working together with the common goal of success for both themselves and the enterprise with which they are affiliated represent a vast untapped potential in the American business community."

Doing Good Is Good Business

A home business can benefit from a philanthropic public image just as a big business can, suggests Home-Work, a newsletter aimed at mothers with home businesses.

Think about the socially conscious steps your business may already be taking or could initiate, such as using recycled paper or biodegradable chemicals, offering a senior-citizen discount, or sponsoring a charity. Then publicize what you do.

For example, if you own a word-processing or writing business, says Home-Work, you could advertise that one cent of every dollar you take in will go to buy typewriters or computers for a local school or books for the local library. "Add a company nameplate to the donated typewriter, or inscription pages to the set of books," says Home-Work. "Send a press release to the city or community newspaper, and make the donation a real public-relations event."

If you give your customers a chance to feel good about participating in a philanthropic project, they will feel good about you and your business, says Home-Work. "Everyone loves a chance to feel like a giver—especially if it doesn't raise the cost of the goods or services they are paying for."

You can obtain a free sample copy of the newsletter by sending your name and address plus a 25-cent postage stamp (Home-Work will supply the envelope) to Home-Work, Box 9825, College Station, Texas 77842.



ILLUSTRATION: DAVID CHEN

Women Business Owners Set The Pace For Growth

More than 4 million American women are now business owners. Figures recently released by the Internal Revenue Service show that the number of women-owned sole proprietorships rose from 2.5 million in 1980 to a high of 4.1 million in 1986, an increase of 64 percent. Receipts for these businesses doubled in that period from $36 billion to $72 billion.

Women-owned businesses are currently the fastest-growing segment of the economy, according to the U.S. Small Business Administration. There were 400,000 more women-owned sole proprietorships in 1986 than in 1985.

And government figures tell just part of the story, because the IRS tracks only sole proprietorships among businesses owned by women and does not tally partnerships or corporations. In a recent survey, the National Association of Women Business Owners found that only one-third of its members owned sole proprietorships. The rest owned regular corporations, S corporations, or partnerships.

The increase in women's business ownership is not just a U.S. phenomenon. The 16th International Small Business Congress, set for Oct. 22-25 in São Paulo, Brazil, has a program on the growing participation of women in business and calls it "Women Entrepreneurs: A Different Breed?"

WE DE



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MANAGING YOUR BUSINESS

A Battle Of Words With The IRS

A dispute with the IRS over deductions teaches lessons about trying to earn money from hobbies, avocations, or second businesses.

By Mike Foster

The letter from the Internal Revenue Service went straight to the point: "We selected your federal income-tax return for the year shown below to examine the items listed at the end of this letter."

That letter from the district director of the IRS arrived in the summer of 1984 and began my struggle with the IRS, which took over three years to settle. The items related to a business trip I had taken in connection with an article I was writing. The cost of my deductions totaled $1,400. The dispute centered on whether I wrote for business or as a hobby.

As my audit progressed, I learned lessons that apply to people who earn, or try to earn, money from hobbies, avocations, second businesses, or any other activity—such as writing, acting, stamp collecting, crafts, music, art, knitting, antiques—that is not their primary source of income. For the sake of convenience, I'll refer to all these money-making ventures as "avocations."

I do not earn my livelihood from my writing, although I spend most of my working hours at it. My income is primarily from my work in investments, my side business.

As I read the Tax Code, it says that an entrepreneur tries to make a profit from some activity, whereas the hobbyist does it for fun. So it seems pretty clear to me that my writing is entrepreneurial.

The tax advantages of being an entrepreneur are enormous. The entrepreneur can deduct *all* business expenses, regardless of whether he makes a profit every year, and he can write off expenses for work that has not been sold. The hobbyist can deduct expenses only up to the amount of income earned from the hobby.

To establish entrepreneurship, you must pass one of two tests of profitability.

The objective test measures actual results: Can you show a profit in your business for two out of five consecutive years?

Although I spend more than 80 percent of my working hours writing, I can't pass this test, and many people who earn money from their avocations can't pass it either.



ILLUSTRATION: REBECCA LEER

The second measure is more subjective and is more often used. It is based on what the Tax Code calls "relevant factors," which are designed to measure how seriously you pursue a profit. These factors are defined in IRS Regulation paragraph 1997A, section 1.183-2. They include your experience and expertise in the activity, how much time you spend on it, how much money you have earned or lost from it, and whether you expect assets used in the business to appreciate.

These relevant factors are only guidelines. Everyone's situation is different (the particulars are, in the words of the Tax Code, your "facts and circumstances"), and these unique details give you a chance to justify your entrepreneurship.

To help you establish entrepreneurship, it's a good idea to follow the rules of good business practice, just as you would in any other money-making venture. Know what is deductible, and keep careful records.

My audit undoubtedly was triggered by expenses I generated in 1982 during a research trip. I duly recorded those on Schedule C, Profit and Loss from Business or Profession, where I also mentioned income from selling two articles during the same year.

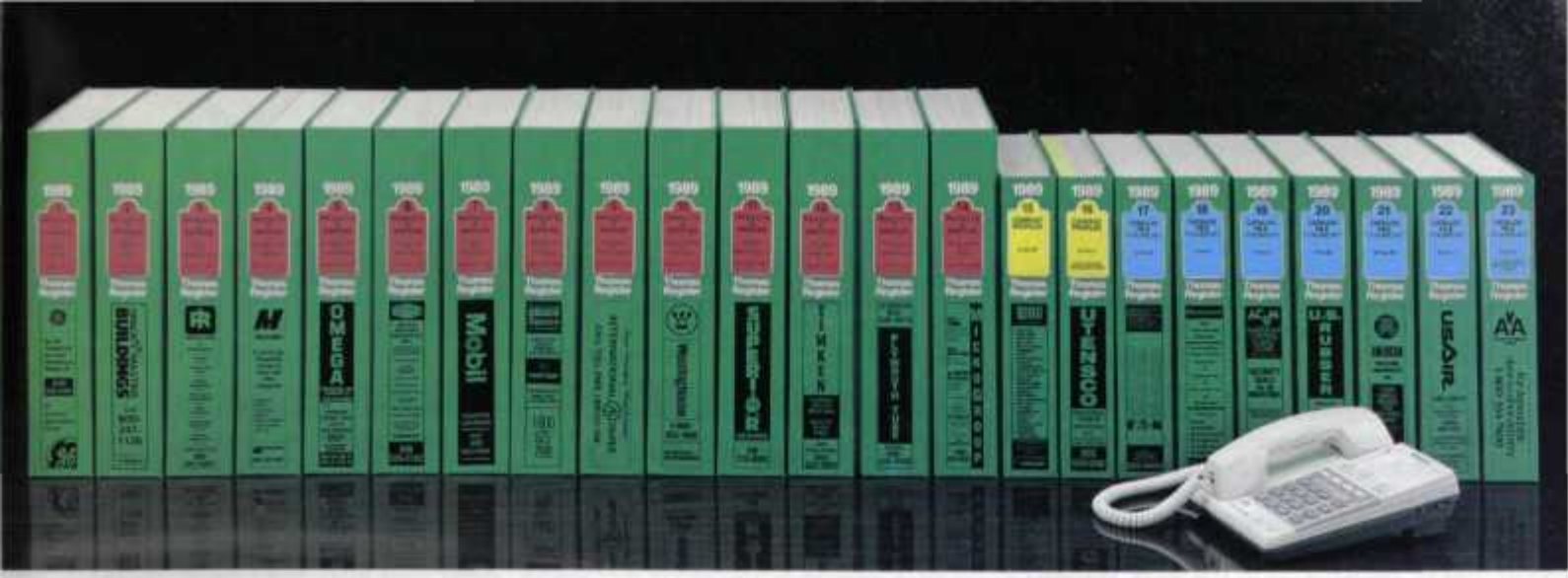
The district director's letter asked me to come to the IRS prepared to substantiate my travel costs. I did. During the interview, the auditor wrote in his summary report: "Verified amount claimed from taxpayer's canceled checks and statements." So far, so good.

The auditor then asked a number of questions about my writing. How long had I been doing it? Did I enjoy it? How much time did I devote to it? I was flattered that a busy civil servant should be interested, so I relaxed and talked freely. What I did not realize until weeks later was that the auditor apparently was trying to wedge me into the definition of a hobbyist, as opposed to an entrepreneur.

Tax Court cases show a lot of latitude in interpreting the facts and circumstances that define an entrepreneur. A sculptor convinced a District Court that her business included "not only the actual creation of the sculptures, but also teaching, operating a gallery, and writing." A retired professor, fascinated with poisonous animals, was allowed deductions because he kept businesslike records, received fees for lectures and consulting, and tried to broaden the appeal of his work. The possibilities are numerous.

Having failed to disqualify me on the basis of my being a hobbyist and not an entrepreneur, the auditor said he would

Mike Foster is a free-lance writer in Denver.



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A Battle Of Words With The IRS

not allow my travel deductions for 1982 because, according to Section 280 of the Tax Code, I must capitalize those deductions. I had no idea then that that meant I must depreciate the expenses over the years; I wanted an explanation. I asked to see the auditor's supervisor and a copy of Section 280.

Reading Section 280 gave me no solace, for it translated into taking no deductions for expenses, including travel or research, until the work resulted in a sold product—in my case, publication of the article. Then I could deduct the costs for a particular piece of work in each of the years I received income from it.

The supervisor, like the auditor, was insistent that I capitalize my expenses. I was unwilling to accept this, and I left the meeting determined to appeal.

In researching the matter, I discovered that I could stop further interest from accruing on the alleged "deficiency" by posting a cash bond, which covered what the IRS contended I owed, plus interest to the date I filed the bond. Filing the bond does not imply agreement with the IRS's claim, but it does block additional interest (which currently accumulates at 11 percent annually), no matter how long the case might last.

Four months after the audit session, another letter arrived from the district director, summarizing the IRS's case against me and giving me 30 days to accept its findings or request an appeals conference.

By this time, I had consulted with lawyers and read about Section 280, and I had become convinced that the capitalization requirements of Section 280 stood on shaky ground. I had learned that Congress had enacted Section 280 in reaction to abuses in the film industry, not out of any desire to deprive creative people of legitimate deductions. The IRS had not yet issued its final regulations on Section 280, which explain how the law should be administered. Furthermore, no court rulings had yet developed on the pertinent issues. Strengthened by this knowledge, in February 1985 I filed for the appeal. My hearing was not scheduled until April 1986—14 months later.

The hearing was brief and businesslike. The appeals officer readily accepted my deductions as proper and agreed that I qualified as an entrepreneur. On the question of taking deductions annually or capitalizing them, the appeals officer said she would study the situation and decide in "a day or two."

Six months later I received her proposed settlement. She reduced the claim by the amount of income I had received for selling the two articles in 1982.

This made no sense to me at all. I rejected the settlement, which led automatically to the IRS's statutory 90-day letter, which reiterates its claim and



ILLUSTRATION: REBECCA LEER

gives the taxpayer 90 days to decide what to do.

Any taxpayer who has not resolved his case at the appeals hearing has the following choices: (1) Pay the amount claimed by the IRS and close the case; (2) pay what is claimed, then sue for redress in a District Court; (3) ask for a full Tax Court hearing; or (4) elect the Small Case Procedure of the Tax Court.

I elected the fourth option for several reasons. Going to either the District Court or the full Tax Court would be time-consuming and expensive because a lawyer would have to represent me at either one. By contrast, the informality of the Small Case Procedure allows the taxpayer to represent himself. Also, since their decisions cannot become precedents for other cases, the judges at the Small Case Procedure might be more flexible in reviewing the facts of a case. The only potential disadvantage is that a defeat here precludes any further appeal.

Two other events influenced my choice. First, after the beginning of my audit, the full Tax Court resolved a case similar to mine in favor of the writer. Second, the Tax Reform Act of 1986 was now on the books, and writers' organizations and others similarly affected by the capitalization requirements were clamoring for a change in the law. I hoped the outcry would affect my trial in U.S. Tax Court, Small Case Procedure.

In April 1987, I requested a trial. It was set for September. Nine days before the trial date, I received a letter from the IRS stating that there was no deficiency in my case, and no further tax was owed for the year in question. Subsequently, I received a check covering the full amount of the cash bond I had filed, plus accumulated interest.

Some final good news for a number of entrepreneurs: In May 1988, Congress made a technical correction in the law, exempting from the capitalization requirements of Section 280 a broad category of what they call "creative producers," people who incur expenses in creating the products of their crafts.

You may never be audited, but if you are, bear in mind these additional points:

- Keep full records of any communications with the IRS, including meetings, letters, and calls. Write summaries while events are fresh.
- Treat work for which you are not paid as you would any other work. It shows your serious intent and can lead to commercial work. Save rejection slips and other evidence of uncompensated work.
- At hearings, don't answer more than you are asked. This is not evasive; it is only common sense when you can't be sure of your interviewer's agenda.
- When looking for advisers, always ask for a brief preliminary conference at no charge to state your situation and discover if the adviser shows an interest in helping.
- Keep track of new developments through the Standard Federal Tax Reports, published by Commercial Clearing House. See especially the weekly *Taxes on Parade*, available at most university law libraries.
- Be prepared for an audit to take longer than you think. The IRS must finish your audit within three years from the date the return was first due. Thus, for a 1986 return, the IRS has until April 15, 1990. But it can ask for an extension, and if you do not agree to the extension, it immediately mails you the 90-day letter, and you forfeit the appeals hearing. There is no harm in signing the extension, for whenever you are ready to speed things up, you can file Form 872-T, which activates the 90-day letter.

Take heart from the legend of David and Goliath. Today, the little guy has more weapons than slingshots. NB

A Checkup On Health Benefits

An update on the battle in Congress over mandated medical coverage leads this roundup on health-benefits issues.

By Roger Thompson

Mandated-Benefits Battle Resumes

Business is gearing up for another major battle against federal legislation that would require all employers to provide medical coverage to employees as a condition of doing business.

Defeating such legislation is one of the top legislative priorities of business in the new Congress. A bill to mandate health-care benefits failed in the last session as a result of a strong campaign by business, which showed that the massive additional costs could drive many firms out of existence.

The health proposal is part of a broad drive by organized labor to have the government dictate a major expansion of employee benefits financed by employers.

The U.S. Chamber of Commerce, which is spearheading business opposition to the health-care proposal, is urging Congress to explore an alternative approach that would help smaller firms in particular to extend health coverage to more workers through affordable steps.

That approach, the Chamber says, would help achieve the goal of extending medical coverage to more workers, while government mandates would be more likely to deprive workers of their jobs than to give them medical coverage.

Key elements of the alternative plan would:

- Allow unincorporated businesses, now limited to a 25 percent deduction for employee health-insurance costs, the same 100 percent deduction available to incorporated firms that provide medical coverage;
- Remove regulatory obstacles that discourage expansion of multiple-employer trusts, through which small firms join to purchase health insurance at the favorable rates that would not be available to them as individual firms;
- Pre-empt state laws mandating specific benefits, which add significantly to costs;
- Explore the possibility of allowing workers to purchase Medicaid coverage at income-related rates.

Job-Change Decisions Hinge On Health Benefits

High-quality health benefits can make the difference between keeping or losing key executives, according to a survey by the National Institute of Business Management, in New York.

Of 1,000 executives surveyed, three-fourths said they give heavy weight to an employer's hospitalization plan



ILLUSTRATIONS: DAVID CHEN

when deciding whether to stay in their present job or go elsewhere.

Among the 41 benefits listed on the questionnaire, only three others receive serious consideration in employment decisions from more than half of those surveyed. Sixty-six percent said vacation policy affects their decision to stay put or change jobs, 55 percent said they consider sick-day policies, and 54 percent consider holidays.

Fitness Day Promotes Workplace Exercise

The first National Employee Health and Fitness Day will be held May 19. The National Association of Governors' Councils on Physical Fitness and Sports will coordinate the observance, which is aimed at increasing opportunities for workers to exercise at their job sites.

The association has set a goal of participation by 300,000 workers representing more than 3,000 companies. Long-range objectives include a substantial increase in the number of firms offering health-promotion and fitness programs.

The organization of governors' councils is offering materials to help companies plan May 19 activities as well as to organize ongoing health and fitness programs for employees at their work sites.

The materials and further information are available from the association at Pan American Plaza, 201 South Capitol Ave., Suite 440, Indianapolis, Ind. 46255. The telephone number is (317) 237-5630.

Stressed Out On The Job

True or false: An employee who suffers a mental breakdown because of job-related stress is eligible for workers' compensation.

The answer is, well, true *and* false. It depends on the location of your business. Courts in several states, including Florida, Georgia, and Minnesota, have refused to uphold claims for work-related stress. In most other states, such claims have received more sympathetic hearings.

In fact, compensation for stressed-out employees has increased in the 1980s. Stress now accounts for 14 percent of all occupational-disease claims, triple the rate of 1980, according to the National Council on Compensation Insurance, based in New York.

The increase is more of a ripple than a tidal wave, however. Occupational-disease claims represent only 2 percent of all workers' compensation claims. Still, it's a ripple to be reckoned with. Stress-related claims on average cost







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twice as much as claims for physical injuries. Payments for lost work and medical costs total more than $15,000 per case, says the insurance council.

The council forecasts even more stress-related claims in the 1990s: "More workers will become aware of their rights to file claims for job-related stress, and there will be more employment shifts into service-sector jobs that have been identified as high-stress employment."

COBRA's Impact On Small Business

Smaller firms are feeling the biggest impact of a federal requirement on health-care coverage for former employees.

The sign-up rate was twice as high for small businesses (27 percent of eligible former employees) as for large ones (12 percent).

The health-care mandate is contained in the Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA). It requires companies with more than 20 employees to offer health insurance to



ILLUSTRATION: DAVID CHEN

former workers and their dependents for at least 18 months; in certain circumstances, COBRA benefits must be offered for up to three years. The former employees who opt for coverage must pay its full cost plus a 2 percent surcharge to cover administrative expenses. Even with the surcharge, the group-plan rates offered by employers are cheaper than individual coverage.

Developments since the mandate was issued in the 1985 law were spotlighted in a nationwide survey of 267 businesses and 17 companies that handle claims for employers. The survey was conducted by Charles D. Spencer & Associates Inc., a Chicago publisher of employee-benefits reports. The findings revealed that an unexpectedly low 12.6 percent of all employees and their dependents eligible for extended health care actually took it in 1987, the first full year of COBRA enforcement.

And more smaller companies—those with 20 to 500 workers—paid a portion of the continued health-care coverage, even though the law doesn't require them to do so. While 25 percent of the small employers paid part of the premiums for the coverage, only 9 percent of the larger companies did so.

Only 75 percent charged the maximum allowable amount, compared with 91 percent of large companies that charged the maximum.

"Possibly the less impersonal nature of small employers is a factor in this employer contribution," said the survey report.

Claims costs per person varied widely. So did administrative costs, which ranged from $6 to $310 per person per year.

In fact, administering COBRA proved more bothersome than the costs involved. The most frequently cited problems had to do with paperwork, such as systems for collecting premiums from those who signed up, notifying employees and being notified by them of COBRA eligibility changes, and managing the record-keeping burdens associated with medical insurance.

Problems With Cost Containment

Business outlays for employee health insurance are outrunning cost-containment efforts.

According to the latest estimates—the final reports are not yet available—the average cost to employers for providing family health-care insurance for one worker in 1988 was $2,544, up 6 percent from the previous year, says the Hay/Huggins Co., an employee-benefits consulting firm based in Philadelphia. The average cost represents a 182 percent increase since 1980, when the same family health policy cost $900.

Over the same period, the average employee's contribution to family medical coverage has risen at a faster rate but from a lower starting point.

In 1980, the average worker paid $97 a year for family medical insurance, compared with an estimated $484 last year. And that does not include higher deductibles and coinsurance payments—the portions not covered by insurance but paid by most employees.

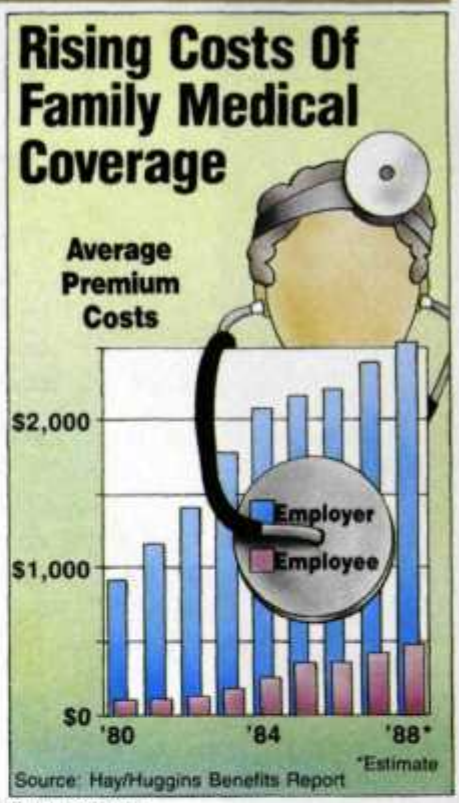


CHART: MARCY MULLINS

The 1988 figure represents a one-year jump of 18 percent.

"Despite efforts to control costs at the provider end of the system, the price of care continues to grow faster than inflation or people's salaries," says Joseph Sapora, senior vice president of Hay/Huggins in New York. He expects the trend to continue until "the larger problem of skyrocketing medical costs is solved."

Health-Care Nest Eggs

A lot of workers over 40 years old wish they had the option of payroll deductions or tax-sheltered savings to build health-care nest eggs for their retirement years.

Forty-two percent of 2,500 middle-aged workers interviewed by GM Associates, a New York-based consulting firm, said they were willing to contribute now to a personal fund to ensure adequate health care when they retire. This personal contribution would be in addition to whatever retirement health-care plan was provided by an employer.

The survey revealed keen interest in the idea of tax-sheltered retirement health-care plans. This could be done through tax credits for premiums or an IRA-type program that exempts interest-bearing health-care accounts from taxation. **NB**

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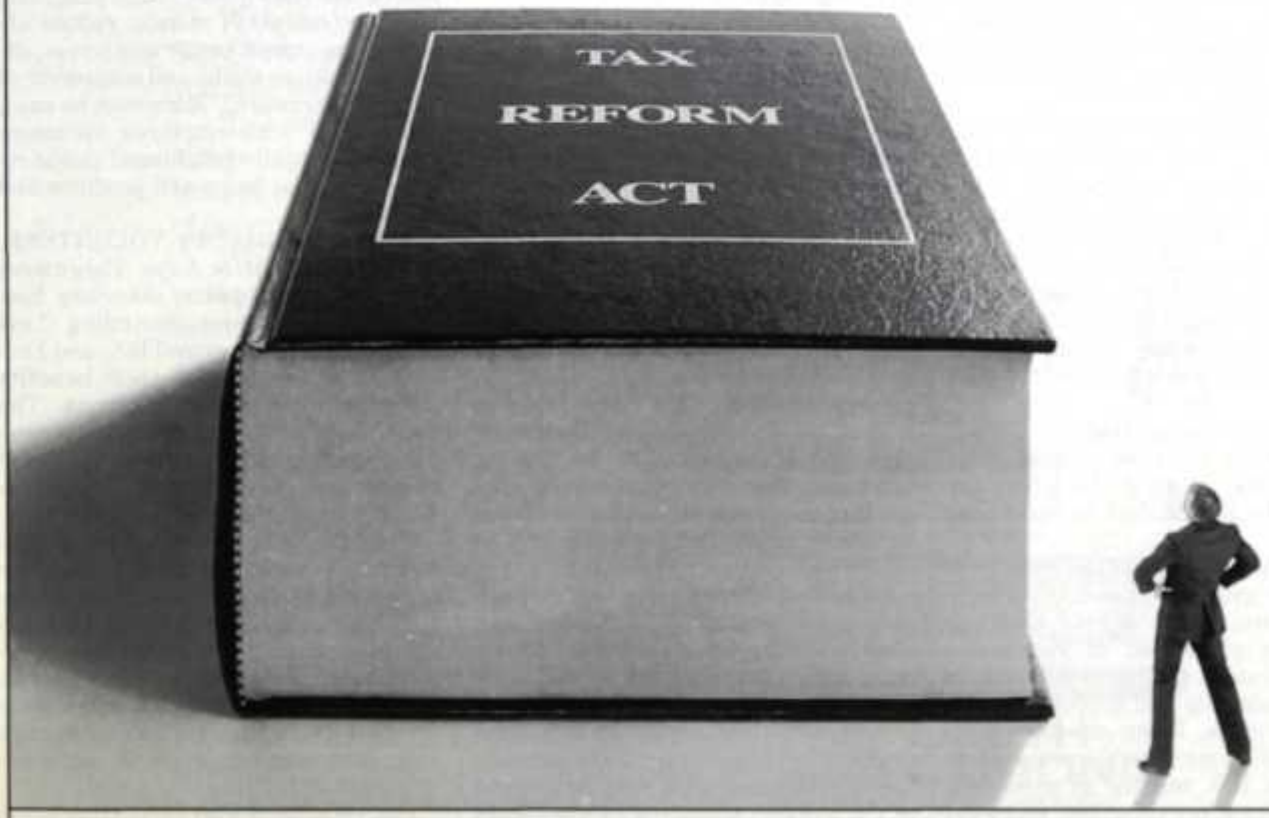
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MANAGING YOUR BUSINESS

An Untapped Resource

Business leadership is the key to building a stronger national network of volunteers to work on community problems.

By Roger Thompson

Over four decades ago, George Romney helped organize the nation's first United Way fund-raising drive, in Detroit. Today almost every city in the nation has an annual United Way campaign.

Now Romney is working to have VOLUNTEER-The National Center, an organization that he chairs, do for volunteering what the United Way did for fund raising. He envisions a highly visible, widely supported national network of Volunteer Centers that would put armies of volunteers to work on community problems.

"The most underutilized problem-solving method in the United States today is volunteerism," says Romney, 81, a former Michigan governor and past president of American Motors Corp.

A Gallup survey released last October provides the most complete assessment ever compiled of volunteerism in America. It reveals that 45 percent of adults in the U.S. volunteered an average of 4.7 hours per week to help charitable causes in 1987. That translates into 80 million people giving a total of 19.5 billion hours with a value estimated at $150 billion.

But the study, released by Independent Sector, a Washington-based philanthropic group, underscores Romney's point about volunteerism as an underdeveloped resource. It shows that many Americans are willing to volunteer but are not being asked. Three-fourths of the respondents believe that they should volunteer to help others, but half did not volunteer in the past year.

Romney maintains that all Americans could do more to support their communities, and VOLUNTEER strives to be the catalyst to make that happen.

At the heart of VOLUNTEER's effort is the growing number of Volunteer Centers, which act as clearinghouses for placement of volunteers with community programs and which provide leadership and support for volunteer activities. There are more than 380 private, nonprofit Volunteer Centers in the U.S. serving an estimated 100,000 private organizations and public agencies. But Romney isn't satisfied with their number or performance.

"Few of these [centers] are as strong and visible as they ought to be," he says. "We need to create as many Volunteer Centers as United Ways. We need people as badly as money."



PHOTO © RICHARD LEE

Former Michigan Gov. George Romney, right, talks with Daniel Gamlin and Adriana Curtis of Detroit, volunteers in a project to help handicapped students.

The key to building a stronger national network of Volunteer Centers is business leadership, says Romney. There's no reason that business can't make Volunteer Centers as successful as it made United Way fund raising. At present, however, "too many business leaders conclude they have discharged their social responsibility by making and encouraging contributions of money. But the problems cannot be solved by money alone. Problems can only be solved by volunteers."

A 1987 nationwide survey commissioned by retailer J.C. Penney Inc. showed the impact of employer support on employee participation in volunteer programs. Sixty percent of workers encouraged by their employers to become involved in volunteer activities actually did so, compared with only 39 percent of the workers employed by companies that did not encourage volunteerism.

Companies reluctant to boost employee volunteerism should consider the bottom-line benefits, says Romney. Research has shown that "such programs improve [company] morale, reduce absenteeism, attract better employees, develop employee skills, and contribute to internal teamwork." Moreover, he says, "companies with employee volunteer programs acquire heightened public respect, and that helps sell products and services."

A book published by VOLUNTEER, *A New Competitive Edge, Volunteers From The Workplace*, describes how 15 large companies, including Levi Strauss & Co., Honeywell Inc., and Federal Express, derived such benefits from their volunteer programs. The book also devotes a chapter to successful volunteer efforts made by small companies. (See "Small Companies Make A Big Difference," on Page 52.)

Over the past decade, business has become the most important new source of volunteers. During this period, VOLUNTEER has assumed a leadership role in promoting and supporting workplace-based volunteer programs. It is the only national consulting resource for businesses that seek to encourage and assist their employees in community volunteer activities.

But volunteers also come from some unexpected places. VOLUNTEER has conducted successful pilot projects showing that the unemployed and the

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An Untapped Resource

handicapped—people who typically need services—can make important volunteer contributions to their communities while gaining valuable skills.

In 1987, VOLUNTEER worked with five Volunteer Centers in various states to involve the unemployed in community work. The goal was to use volunteering as a useful retraining opportunity for workers who had lost their jobs through plant closings or corporate downsizing.

The program in Albany, Ga., involved 39 people who had lost their jobs when the local Firestone Tire and Rubber Co. plant closed. By the end of the nine-month project, 25 percent of the participants had secured jobs, 42 percent reported they had job prospects, 35 percent had returned to school, and 53 percent showed a significant rise in self-esteem.

All five pilot projects worked well enough to demonstrate that volunteering can be effective in helping the unemployed make the transition to a new job.

A pilot program for handicapped high-school students operated for three years, until the end of 1988, in five Michigan cities. Project Next Step combined community-service activities with summer jobs supervised by adult mentors. More than 800 disabled young people participated.

"The primary benefit was one that relates to self-confidence," said Maurice Wesson, a senior manager with the Detroit Center for Volunteerism. The project "allowed these youngsters to see how well they functioned in structured activities that they heretofore had been barred from." Many of the participants said they were grateful that they had learned what they could do instead of being told what they couldn't do.

It is through such activities that VOLUNTEER helps perpetuate the spirit of self-reliance that is uniquely American, says Romney. "America became great not primarily as a result of what government did for the people, but primarily as a result of what people did for themselves." NB

For More Information

You can contact VOLUNTEER-The National Center at 1111 North 19th St., Suite 500, Arlington, Va. 22209; (703) 276-0542. "Volunteer Readership 1988-89," a booklet published by VOLUNTEER, lists a number of how-to and resource books available through the organization.

Small Companies Make A Big Difference

While a national survey shows that a majority of small-business executives serve as volunteers, only about one-third of the small firms reported any type of formal system to promote employee volunteering.

In contrast, more than two-thirds of large corporations have such programs.

According to the survey, conducted by the Mutual Benefit Life Insurance Co., small companies that deal directly with the public, such as retail, financial, and other service businesses, are more likely than other small firms to support an employee volunteer program. This is probably because they perceive more tangible benefit from such activity than construction or manufacturing companies, according to the survey report.

The survey indicated that small-business owners must be reminded that volunteer efforts can instill a sense of community responsibility as well as have a positive effect on a company's bottom line. VOLUNTEER's publication *A New Competitive Edge* cites several examples.

Threatened with the need to lay off some of its 80 employees during a lean period several years ago, the owners of Iris Arc Crystal of Santa Barbara, Calif., decided to lend employees for community service one day a week instead.

The volunteers helped elderly and disabled people in the community, and the company avoided the high cost of recruiting and training new employees once business picked up again.

The company, which manufactures crystal giftware, has prospered in recent years and now employs about 85 people.

While the company no longer lends employees for community projects, owners Jonathan Wygant and Frances Patruno continue to encourage employees to volunteer.

They say that volunteering improves employee morale, boosts the company's image in the community, and shows other businesses the positive aspects of volunteering.

Casa Sanchez, a San Francisco manufacturer and distributor of Mexican food products, has been involved in community projects for over 10 years. The firm launched what has become an annual community street fair, and it has sponsored community clean-up days, fund-raising carnivals, and bake-offs. It also lends its officers to participate on nonprofit boards of directors.

President Robert Sanchez says about half of the company's 26 employees are involved regularly in volunteer activities.

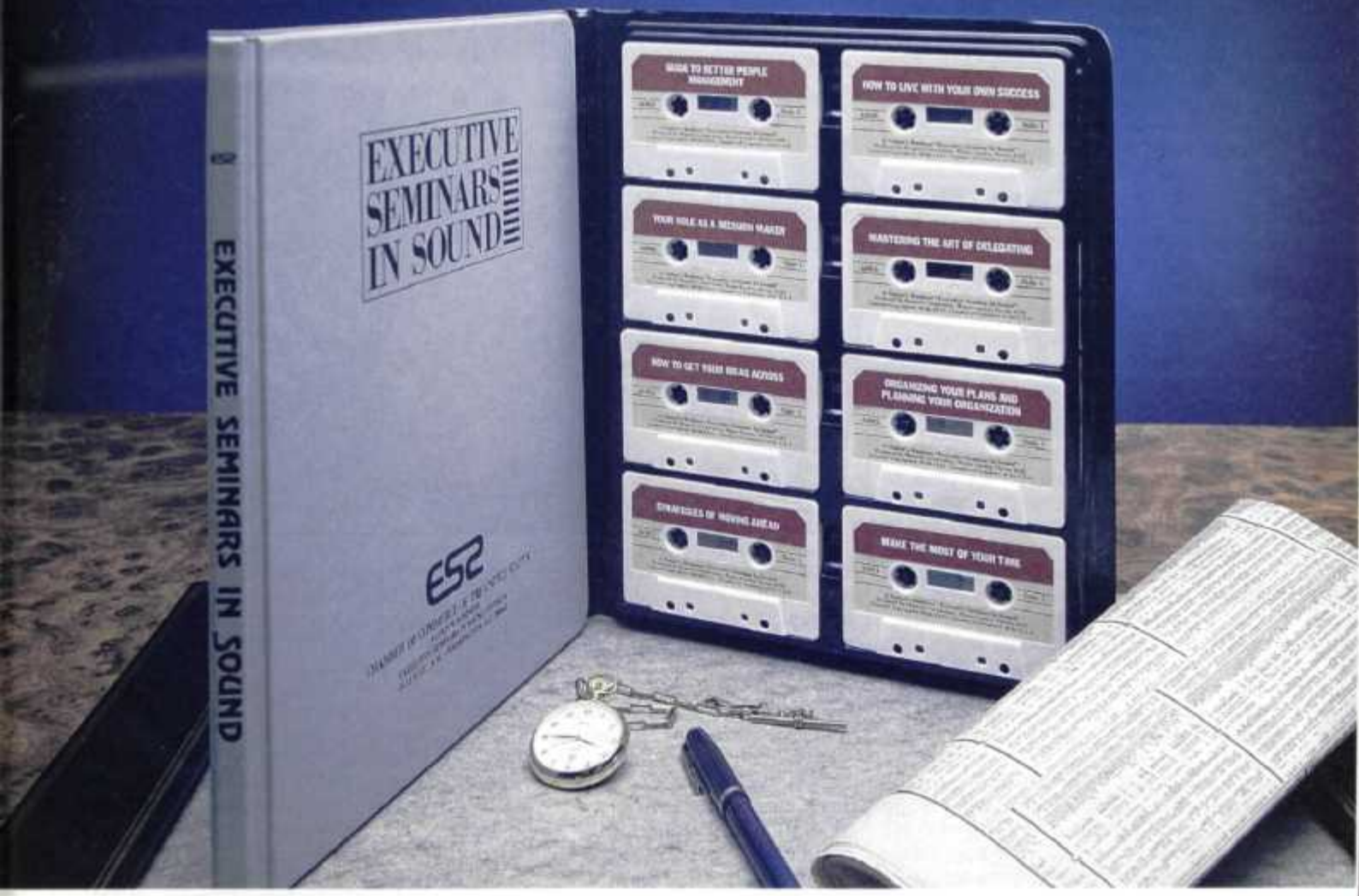
"We encourage our employees to get involved to make the community better," he says. His employees gain personal satisfaction from the work and become better informed about community issues, Sanchez adds. "The benefits might not come back immediately, but we have an excellent reputation for helping out. And that helps our image and our business. People want to support us."

Robert Sanchez, center, president of Casa Sanchez in San Francisco, and employees Mary Rodriguez and Solomon Zelaya are volunteers who help youth sports programs.



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Blunders Abroad

These common mistakes made by Americans trying to do business overseas offer pointers on exploring foreign markets.

By Charles F. Valentine

Americans are often accused of insensitivity toward other cultures. And yet when I talk with American business people, I am often struck by how many are genuinely concerned about "doing the right thing" and bridging cultural gaps when they travel overseas.

During my nearly 14 years advising clients on trade matters, I have collected a number of amusing anecdotes—and some that are not so amusing—that illustrate many of the most common mistakes made by Americans trying to do business in other countries. The value of these anecdotes, all of them true, is that they offer helpful pointers to business people exploring foreign markets.

One of my favorite stories concerns an American who went to Malaysia to close a substantial contract. There, in a splashy ceremony, he was introduced to someone he thought was named "Roger." Throughout the negotiations, he called the man "Rog," not realizing that his potential client was a "rajah," which is a title of nobility, not a person's name. This well-meaning American did not know that, in Malaysia, while many of the states are controlled by sultans, one state is headed by rajahs.

While this type of incident can happen to almost anyone and might make for a good laugh afterward, it's far from funny at the time. It may insult your hosts, embarrass you, and cost you the business you're trying to get. In short, mistakes like this should be avoided. One way to prevent or at least minimize the chances of such mistakes is to learn all you can about your potential clients before you meet them.

Learning about your clients also means doing market research. Many Americans think that the research they did at home will work abroad or that no market research is needed. Some corporate executives believe they can just "wing it" and make a sale because they have a superior product. Overconfident and underprepared in their international ventures, they "invade" foreign lands, attempting to do something approaching a marketing study of 12 countries in six weeks. Later, after their recommendations have flopped, they say they "can't understand what happened. The same approach worked when we started our operations in Los Angeles."



ILLUSTRATION CAMERON GERLACH

Consider the case of a large U.S. soft-drink firm, which had set up large bottling and distribution facilities in Indonesia, hoping to get a substantial market share in that country of 176 million people. But the drink did not sell. The company came up with unrealistic sales projections based primarily on demographic data that omitted the fact that most Indonesians at that time had little disposable income. Further study revealed that the actual market for this carbonated American soft drink consisted mainly of tourists and expatriates in the country's major cities, and that most Indonesians preferred non-carbonated, coconut-based drinks.

Similarly, a well-known franchised health club learned that what sells in New York may not sell abroad. When the company decided to open a facility in Singapore, it spent considerable sums equipping and decorating the club. Yet the club did not attract many members, and it ended up serving a relatively small expatriate community. The company miscalculated by assuming that residents of Singapore would join an American-style health club. To succeed, the franchise should have catered instead to the residents' preference for Western competitive sports, Chinese calisthenics, and traditional forms of Asian exercise.

The experiences of the soft-drink company and the health-club franchise teach an important lesson about exporting. If you want to succeed at selling overseas, you should take the time to research carefully the foreign markets that interest you, bearing in mind that each has its own characteristics.

You can learn a lot about a foreign market without leaving the U.S. For example, you can contact the Office of International Trade Administration at the U.S. Department of Commerce. There, you may want to speak to those who specialize in the countries and industries that pertain to your products or services and your exporting interests. You also can turn to various international organizations and foreign government agencies for information. Another option is to obtain advice from consulting services.

Since it is important that you combine this knowledge of the foreign market with awareness of the culture and history of the countries you are about to visit, check your local library for

Charles F. Valentine is a partner in the accounting and consulting firm of Arthur Young and directs its International Trade Advisory Services Group, in Washington.

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books on those countries and for international publications such as *The Financial Times of London, The Economist,* and *The Far East Economic Review.*

To enrich your understanding of other cultures, you may also want to enroll in cross-cultural workshops sponsored by universities and various international organizations.

Such cultural training can help curb inadvertent insulting behavior, which can cost a firm dearly when it is trying to win a contract. And such incidents can happen even when you think that you have covered all your bases, as an oil company discovered when it was about to sign a contract with a Middle Eastern nation. An hour before the signing ceremony was to begin, the American executive and the responsible government official met for tea. Relaxing, the American propped his feet on a table, with his soles facing his Arab host. At once, the official became angry and left the room—to the surprise and dismay of the American. The U.S. executive did not know that exposing the sole of one's shoe to an Arab is a grave insult. It took another year of negotiations to get the contract signed.

Another cultural misunderstanding that can breed mistakes in doing business overseas is the impulsiveness that many American firms display when they decide to go international. Some clients have told me, for example, that they often hear of efforts that go sour when a U.S. firm sends a manager overseas for a week with instructions to talk with a few people and pick someone to represent the company. Later, the foreign representative turns out to be unreliable, and the U.S. company is stuck with a bad partner.

To avoid such experiences, you should check your potential foreign partners as thoroughly as you would check one in the U.S. Investigate references and credit records, and verify that the representatives indeed have the contracts, staff, and contacts they claim to possess.

In addition, many American executives not only proceed impulsively but also expect quick results when they deal with overseas customers. Many U.S. executives lack patience when they travel to another country, arriving with the presumption that the whole world does business in the hurried American manner, and failing to realize that the concept of time and the pace of business often differ overseas.

European and Asian firms stress long-term orientation in their trading relations, for example, while many American firms focus on short-term gains. Adjusting to these differences in cultures and business practices is particularly important if you want to develop long-term relationships with your overseas customers.

Failure to recognize such differences can lead to disappointment, as a team of American businessmen discovered in Beijing. They arrived expecting to close a deal quickly. While they were relaxing in the hotel lounge on their first evening in town, they shared their enthusiasm with an acquaintance of mine, ignoring his advice that they not be in a rush for results. As each day passed, my acquaintance saw their exuberance diminish more and more. By the fourth day, the Americans were morose because they thought nothing was happening. Though my acquaintance had concluded that the Chinese were negotiating at their normal pace, the Americans gave up and went home the next day, totally discouraged.

Another example cropped up in the tale of the three U.S. executives who flew to Japan to sell tractors to Japanese buyers. The Americans—none of whom had ever been to Japan before—thought that their presentation had gone well. The Japanese, however, expressed no reactions after they heard the price of the tractors. As their silence became disquieting, the senior American executive lowered the price of the tractors. The Japanese kept quiet. Ultimately, the Americans lowered their prices far more than they had ever planned. They did not know that the Japanese executives had fallen silent not to signal rejection of the proposal but simply to think it over.

When you do business overseas, be prepared for differences in communication. Silence has various meanings in various parts of the world, and it is not necessarily a negative sign. You also should consider that not all foreign businessmen use the telephone in the same way it is used in the U.S. In some countries, dealings by phone are not considered equal to conversations face-to-face. And bear in mind that language barriers may come between you and your customer, even if your potential client speaks English as a second or third language or you speak your guest's language.

And don't forget Murphy's Law—as fully in force overseas as it is in the U.S., and probably with a few more amendments! Expect surprises—expect that anything that can go wrong will go wrong. Remember what happened to a certain American executive who went to a small Caribbean country, expecting to close a sale in no time.

When the executive entered the prime minister's conference room, he began his presentation by saying, "Honorable Mr. Tollis and esteemed members of the cabinet."

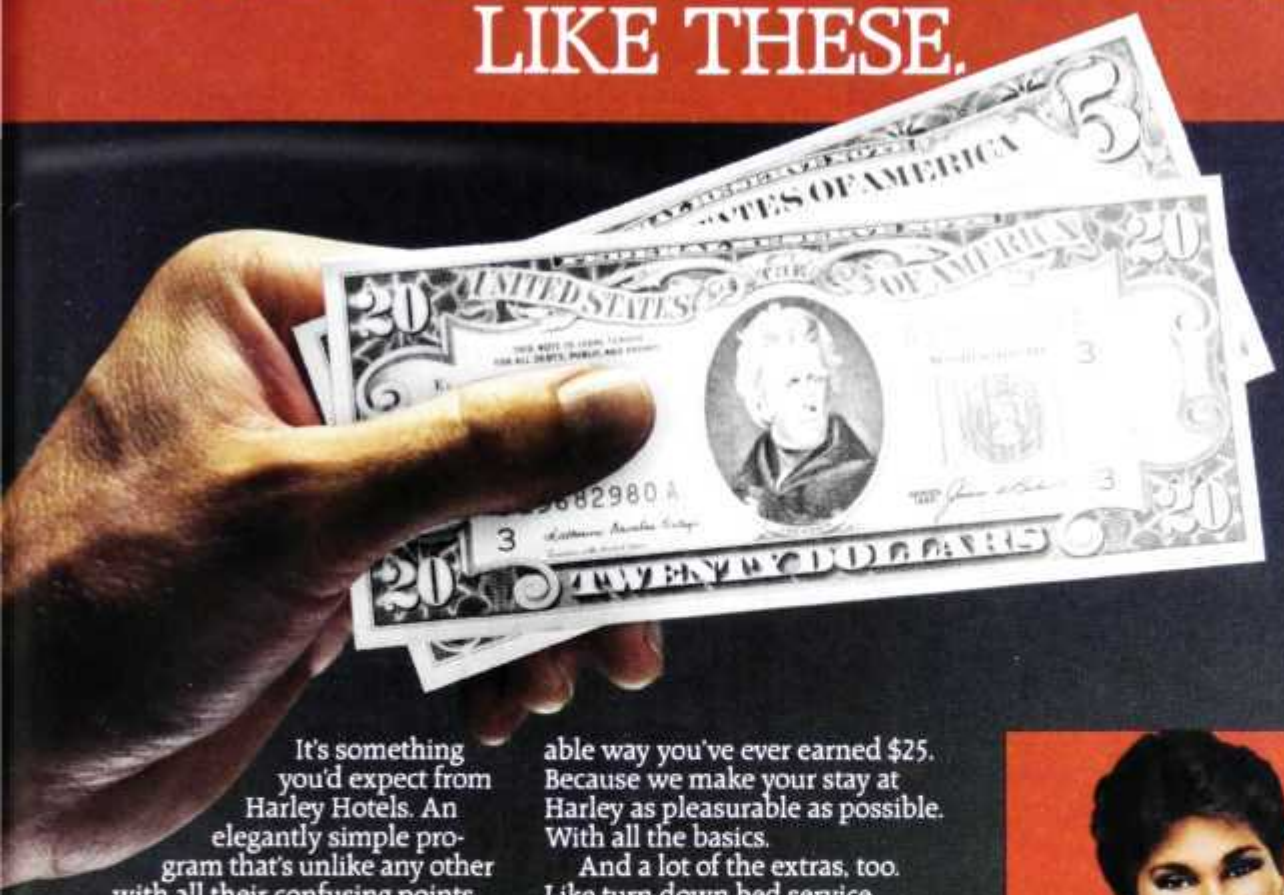
"Won't you please start again?" the prime minister said. Bewildered, the American businessman obliged.

"Perhaps you should start over," said the prime minister, visibly annoyed this time.

One of the cabinet ministers sitting nearby took pity on the American and whispered into his ear: "Mr. Tollis was deposed six months ago. You are now addressing the Honorable Mr. Herbert."

So prepare for the unexpected, do your homework, take nothing for granted, be courteous, keep your sense of humor, be patient, be thorough—and you may do just fine. ■

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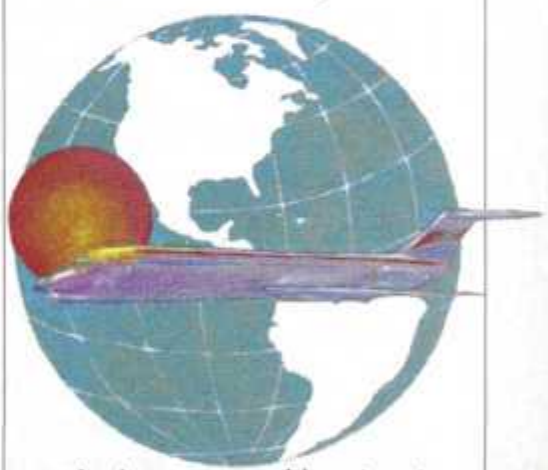
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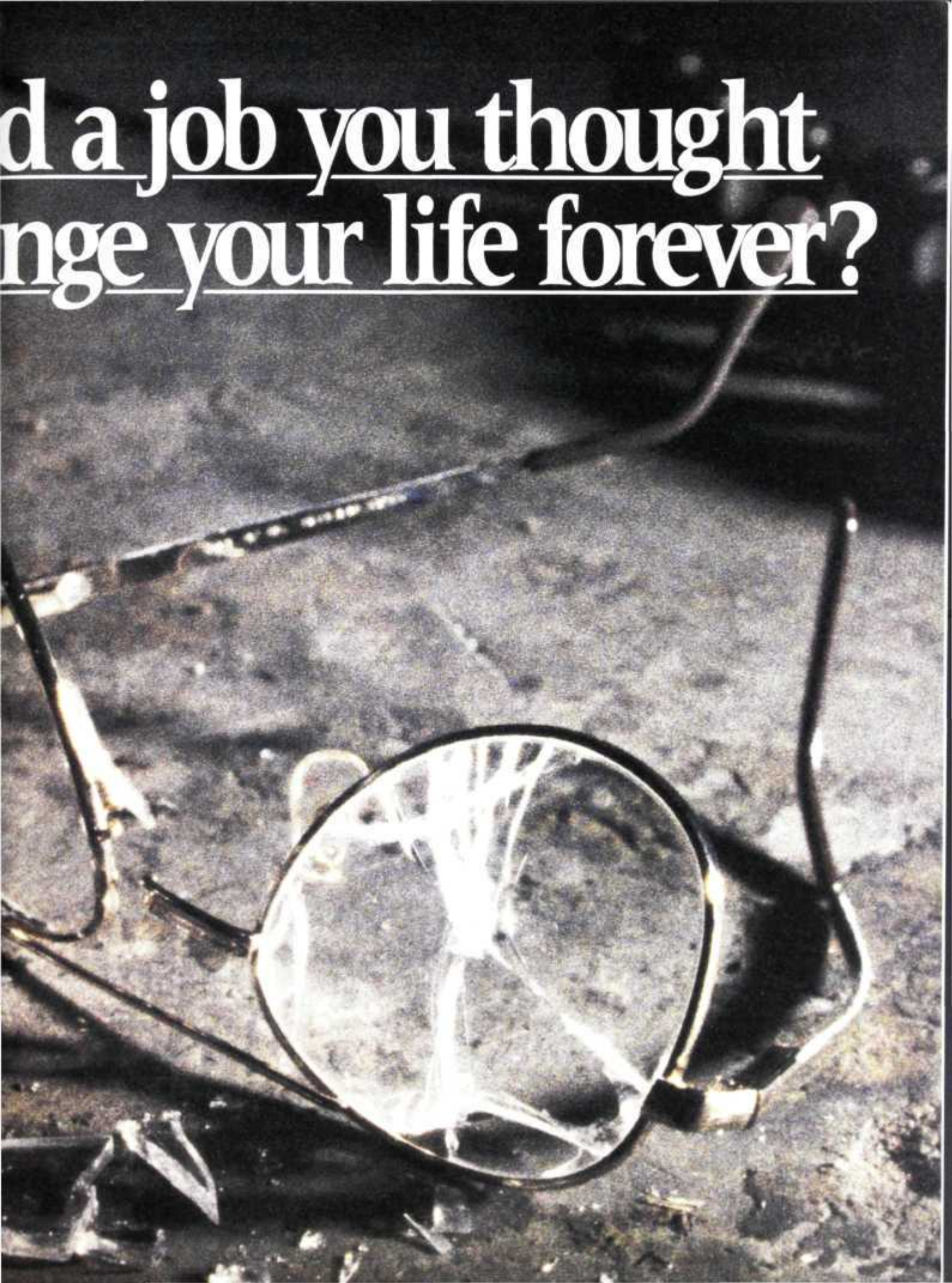
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The Impact Of AIDS On Benefit Plans

Reported cases of AIDS continue to rise substantially, and employers are increasingly challenged by both the human and economic impact of this fatal disease.

The human costs are incalculable. For those who suffer from AIDS—acquired immune deficiency syndrome—and for their families, the toll is terribly high. Its emotional drain is accentuated by the fact that most of its victims are young adults, who should be at the peak of their productive working years.

For employers, these same factors make AIDS in the workplace both emotionally and economically draining.

There are various financial costs associated with having an employee with AIDS. The specter of AIDS as a major health crisis raises concerns that the costs of employer-paid insurance will increase. In addition, employers, employees, and insurers will soon have to rethink and consider redesigning employee-benefit plans.

A survey by Alexander & Alexander, an employee-benefits consulting firm, showed that benefits paid out for an employee with AIDS typically exceed $100,000—the average expenditure per afflicted worker consists of $47,702 for health-care costs, $11,285 for long-term disability, and $44,363 for death benefits.

There are three major areas for employer consideration in reviewing benefit plans:

Health Care

In response to burgeoning health-care expenses in general, not just for AIDS, many employers have turned to cost-containment efforts. Among the most successful has been "case management." Typical case-management techniques include monitoring the course of a person's illness, supervising and authorizing medical services, and using lower-cost outpatient, home, or hospice care instead of hospitalization. Treatment in a hospice, for example, can be 20 to 30 percent less costly than in a hospital.

At the core of decisions on benefits will be inevitable questions on balancing the employer's desire to cover the health needs of employees and their families with the need to control costs.

The AIDS patient needs custodial care, help with daily tasks, and physical therapy more than intensive medical treatment, and hospitalization therefore may not be the best course.

The cost-saving benefits of case management are likely to lead to its more frequent integration into health plans for AIDS as well as other conditions.

One of the unknown factors, at the moment, is the effect that certain drug therapies for AIDS will have on overall employer health-care costs. Currently, AZT is the only commercially approved drug available for the treatment of AIDS. The manufacturer recently lowered its cost, but it still remains expensive for an ongoing regimen. In addition, biweekly blood transfusions, which are needed to offset the toxic side effects of AZT, add considerably to the overall expense. Some employers may respond to the costly nature of the drug therapy by limiting the prescription-drug benefit available under a company health plan. Other companies wishing to cover medical expenses will add prescription drugs, including experimental ones, to their health plans.

Other aspects of health plans are also likely to undergo serious scrutiny by employers and insurers. The vast majority of health plans sponsored by medium and large firms contain provisions for mental-health benefits. However, most of these plans have limitations on these types of benefits, such as the number of days of treatment or the total dollar expenditure covered.

The comprehensiveness of mental-health benefits could become increasingly important as plans are modified

This article and checklist are adapted from AIDS: An Employer's Guidebook, *published by the U.S. Chamber of Commerce and written by James A. Klein, deputy executive director of the Association of Private Pension and Welfare Plans. Chamber members may order the 86-page publication by sending $20 ($33 for nonmembers) to the U.S. Chamber of Commerce, Publications Fulfillment, 1615 H Street, N.W., Washington, D.C. 20062. Ask for publication 0088.*

Checklist For Health, Life, And Disability Insurance Coverage

Employers can use this checklist to help determine whether terms of their benefit plans are adequate to meet the challenges posed by employees with AIDS in the ways the employers wish to meet them:

1. Review current health, disability, and life-insurance plans for limitations and exclusions, especially any relating to pre-existing medical conditions.

2. Determine whether your company or insurance carrier has procedures to ensure confidentiality in handling claims.

3. Does the health plan:

- Cover drugs, mental-health care, and experimental treatments?
- Cover care in the home, in a skilled-nursing facility, or in a hospice?
- Contain a stop-loss feature limiting the employer's loss exposure?
- Contain case-management features to allow for continued monitoring of AIDS and other illnesses?
- Have special requirements for extended coverage or conversion to individual coverage for ex-employees?
- Allow a person unable to pay premiums to remain covered for disability-related expenses?

Employers, employees, and insurers soon must consider redesigning employee-benefit plans, especially health-insurance plans, to meet challenges presented by AIDS.

either to include or to limit coverage for a mental disorder known as AIDS dementia, which is one manifestation of the disease. And psychiatric counseling for terminally ill patients and their family members is another type of mental-health benefit with higher costs.

Finally, clauses dealing with pre-existing medical conditions and provisions for employer-paid continuation of coverage are both aspects of health-plan design that employers and insurers will be re-evaluating.

At the core of decisions on plan design will be inevitable questions about balancing the employer's desire to cover the health needs of employees and their families with the need to control costs.

Life Insurance

If the projections on the spread of AIDS prove accurate, expenditures on group life insurance could become substantially greater. Employers and insurers could face the likelihood of a greater number of claims by young workers for whom premium contributions had been made for only a few years.

Increased claims, leading to higher employer-paid premiums, could discourage employers from offering life insurance. At the same time, group life insurance could become a more important benefit demanded by employees as individual policies become more expensive and potentially less available.

One consideration is whether a plan allows a waiver of premium payments by a totally disabled employee. Plans with this feature can cost more.

Disability Insurance

The cost of disability coverage now provided on a group basis by some 40 percent of U.S. firms is likely to rise as more suffer the debilitating effects of AIDS. It is very possible that an employee in the advanced stages of AIDS will be unable to work for periods of time. Disability coverage would then become an especially important benefit.

A disability policy that permits people to return to work or work at home periodically without jeopardizing ultimate benefits and without requiring requalification for benefits serves at least three objectives. First, it allows the employer and employee to continue the working arrangement as long as is mutually desirable and feasible. Second, it can offer the employee both financial protection and a sense of productivity. Third, it can reduce disability costs by allowing the employee to work when able, rather than collect benefits for the duration of the illness. **NB**

Other questions:

- How does extended-coverage conversion coordinate with related options under state or federal laws?
- Is coverage provided by a commercial insurer, a Blue Cross/Blue Shield type of plan, or is it self-insured?

4. For a life-insurance plan:

- What is the maximum coverage allowed without evidence of insurability?
- Can the employee elect to purchase additional coverage? How much? Is evidence of insurability required?
- Can a disabled employee retain coverage without paying premiums?

5. For a disability plan:

- What are the waiting periods for coverage? Does it allow periodic return to work or work at home without loss of benefits, or does it require requalification? Does it include case management for a modified work program?

6. Do the insurance plans meet the needs of the employees as well as the objectives of the company?

A frequent question is whether an employer can discharge or refuse to hire someone with AIDS. The answer in almost all instances is no.

Many federal and state courts have extended to AIDS sufferers the protection of laws for the handicapped. The U.S. Supreme Court has not ruled on this issue, but all indications are that it would agree.

A handicap can be a reason for dismissal or refusal to hire only if it prevents the person from doing the job.



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A Franchise? Or A Dealership?

The choice is yours. Here are tips for telling them apart and deciding which is for you.

By Martha I. Finney

You just read in the local paper that a franchise trade fair will be in town. You've been thinking about buying your own franchise for a long time, and this seems like just the incentive you need to start shopping.

But when you attend the trade fair, you find very few franchise representatives there. Mostly there are booths advertising business opportunities, such as dealerships.

If you're like most people, you probably are confused about the difference between a franchise for a product and a dealership for a similar product. Many business-opportunity salespeople even mix up the terms.

Dealerships are simpler and cheaper to set up, so why would you want a franchise? That depends on you and your experience.

Take the cases of James Neve and Richard Boul. Last year each was in the market for a small business. Neve chose a dealership for custom-built hearing aids. His enterprise, in Minnetonka, Minn., is eight months old.

"This is my new career," says Neve, who runs the Beltone Hearing Aids Center in Minnetonka and wears two hearing aids himself. "I had been a chief financial officer for a large organization for 15 years. I decided it was time to branch out and do something on my own."

Boul, an investment dealer for 20 years, and his wife, Ginnie, chose a newly franchised Travelhost travel agency in Dallas. His shop is due to open this month.

"Purchasing a franchise will cut out a lot of the hard, uphill work of trial and error," says Boul. "We can go straight into operating a successful, profitable agency with minimum delay."

These two people, with similar professional backgrounds and with no entrepreneurial experience, carefully weighed all the factors—and then went in opposite directions.

Or so it would seem.

Martha I. Finney is a Washington-based free-lance writer. Meg Whittemore, a Washington writer who specializes in franchise topics, contributed to this article.

James Neve, right, a former financial officer for a large organization, began a "new career" last year when he opened his Beltone hearing-aid dealership in Minnetonka, Minn.



PHOTO: © STEVE WOIT—PICTURE GROUP

On paper, dealerships and franchises are quite different, but when theory enters real-world practice, the lines between dealerships and franchises blur substantially.

The biggest difference between a franchise and a dealership is that franchises are more heavily regulated by the federal and state governments, says Jeremy Wiesen, an associate professor at the Stern School of Business in New York.

Different states, however, have different standards for determining whether a business is a franchise and should be registered.

"You may have a dealership, and under various state laws it may qualify as a franchise. Strictly speaking, a franchise is a much more serious contractual relationship, while a dealership is less restrictive," Wiesen says.

Franchisors, for instance, are required by the Federal Trade Commission to provide prospective buyers with a disclosure document at the first meeting where the sale of the franchise is discussed.

A disclosure document is a track record of the business. It includes the history of the company, any litigation it may have been involved in, biographies of the founders, required fees and investment costs, and what the franchisee can expect for his money.

Companies selling dealerships are not required to register with state governments and do not have to provide information on the company's track record.

Therefore, dealers have fewer legal protections than franchisees.

A business-format franchise—one in which the franchisee must follow the franchisor's entire business format to the letter—generally charges an initial franchise fee and levies a royalty on gross sales.

Although distinctions can be made only case-by-case, Wiesen says, some generalities can be applied in most cases:

- A franchisee buys the name but not necessarily the product. For instance, the franchisee of a hamburger stand buys the right to use the logo and must make sure the hamburger quality conforms to prescribed standards. But the franchisee may not necessarily have to buy the hamburger meat from the home office.
- A franchisor makes money by charging a royalty on the gross sales of the franchisee, and the franchisor also charges the franchisee for opening up an exclusive territory (the initial franchise fee). In return for these fees, the franchisor promises to provide support services and recruit new franchisees into the system to build better name recognition.
- In a dealership, the home office makes its money by selling the product wholesale to the dealer, who then marks up the merchandise at his or her own discretion.
- A business-format franchisor provides training, ongoing support, and a prescribed management system for a start-up operation. Franchisees usually must follow the system precisely, including specific prices.
- At a minimum, a franchisor gives franchisees operations manuals, help in selecting a site, product and management training, equipment, advertising, and ongoing advice. It also has requirements for how the shop looks, what

A Franchise? Or A Dealership?

people wear, and how they treat customers.

- A manufacturer, on the other hand, supplies its dealers with the product and technical advice but usually doesn't give them management assistance or help with site selection.
- A franchisee typically represents the product or service of only the parent company and uses its name and trademark, while a dealer can often represent products of several manufacturers and operate under any company name.

In essence, says Wiesen, "If you're established in business and you know the industry, you become a dealer. If you lack experience, you take a franchise."

Neve, for instance, decided to buy a dealership because he had substantial knowledge of the product (his two hearing aids are Beltones), and he helped his brother set up a Beltone dealership in Duluth, Minn.

Although Neve could have bought a dealership that offered greater management independence, he liked the support services that the company offered without having to pay an ongoing fee.

"We're the best of all worlds," says Anthony Mirabelli, director of marketing and sales for Beltone Electronics Corp. "We provide the dealer with an agreement that allows him to market in a specific area free of other Beltone competitors. In return, we look for the dealer's best efforts and total support. We work very closely with the dealer to monitor his performance, and we assist him any way we can."

Beltone's regional managers make sure their dealers understand the company's policies and procedures. The company also arranges a grand-opening celebration and provides advertising and direct-mail support at no extra charge.

Beltone looks a little like a franchise in other ways, too. Beltone dealers operate out of a Beltone establishment with a Beltone sign, and they sell nothing but Beltone products. They also must design the shop's interior with preapproved colors for the preapproved look.

The only difference between this dealership and a franchise is that Beltone dealers don't pay a franchise fee or a royalty.

Boul went with a franchise instead of a dealership because he wanted to operate under a widely recognized trade name. He also felt more confident with a federal- and state-regulated business. While he was not guaranteed success, he feels more reassured that if the franchisor does not honor its contract, he will have better legal footing than he might have had with a dealership.

"Part of our decision was Travelhost's reputation," says Boul.

"We were particularly impressed with Travelhost. When you're starting off, I feel that it's important to have good backing. The fact that everything is very precisely planned—down to the detail of the office—was very impressive."

In today's competitive marketplace, a little parent-company support can go a long way. NB

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Personal Management

To Your Health

By Martha I. Finney

TMJ: When Teeth Bite Back

You're about to begin an important presentation that could mean a hefty percentage of next year's revenue. Just as you take your place near the flip chart, your pesky tooth flares up again.

This isn't the mere chilly thrill of a pinprick cavity. This is compounded punishment for life's little transgressions—for canceling dental appointments, for the times you didn't floss, for eating those little chocolates you found on hotel pillows. As you stand before all those people who surely have perfect, pain-free teeth, you just know that you're in for a root canal.

But your dentist may not find any decay. It may be that during the night you have been working out your stresses, and your teeth are finally telling you to knock it off. As you sleep, you may be clenching and grinding your teeth, putting heavy stress on your nerve endings, jaw, and joints. The painful result is called temporomandibular joint syndrome, or simply TMJ. It is an inflammation of the muscles, tissues, and nerve endings where the jaw is hinged to the skull. In addition to severe toothaches, TMJ symptoms also include a clicking jaw, neck and ear aches, tension headaches, even sinus problems.

For clothing retailer Jerry Goldberg, the pain was so sudden and severe that his wife thought he was suffering a stroke. "My pain went into my ears and head. It just drove me crazy," says the Jenkintown, Pa., owner of Boytogs-Upperclassman Inc., a clothing store for men and boys.

His dentist referred him to a root-canal specialist, who in turn referred him to Neil Gottehrer, a dentist and director of the Craniofacial Pain Center in Abington, Pa. With his fingers, Gottehrer applied pressure on the muscles and nerve endings in Goldberg's jaw. That gave Goldberg relief that lasted several days, long enough for him to catch up on his sleep and for Gottehrer to build Goldberg a bite plate—an acrylic mouthpiece that would inhibit his constant clenching of his teeth. "Since then I've had no problems at all," he says. "I don't have to use my bite plate during the day, which I did for the first couple of weeks."

Martha I. Finney is a Washington-based free-lance writer.



PHOTO: ©JON RILEY—FOLIO

If your dental X-rays reveal no cavities but your teeth still ache, you may have temporomandibular joint syndrome, or TMJ, which can result from grinding your teeth.

The American Dental Association says about 10 million Americans suffer from some form of TMJ. The syndrome is usually caused by traumas such as car accidents, faulty dental work that affects the bite, and stress. Gottehrer sees TMJ cases relatively evenly distributed among all three causes.

Big-city generalist dentists tell a different story, however. "About 95 percent of my cases are stress-related, and working people with high responsibility are common candidates for TMJ treatment," says David Rothkopf, a Washington dentist and a former TMJ patient himself. "We all have stress, and something might tip it off. The temporomandibular joint becomes a target organ to vent nervous energy."

Because the symptoms usually first appear in the teeth, dentists are more likely to know about and diagnose TMJ. However, since the problem area is where the jaw meets the skull, it's an orthopedic condition—the physician's jurisdiction. Moreover, if the problem is caused by stress, some psychotherapy may be called for during treatment. As a result of all the health-care specialties involved, and because the bite plate is considered an orthopedic appliance, TMJ treatment is usually covered under medical insurance—a plus for those in small businesses that can't afford dental insurance for employees.

If stress-caused TMJ is treated early, says Rothkopf, it's possible that the patient can be treated with relaxing exercises. More advanced cases require mild tranquilizers for starters and a bite plate, which can cost between $400 and $800. Rothkopf also advises that TMJ has become a fashionable diagnosis among the professions, and that it's possible to diagnose TMJ when a root canal really is necessary. But, he says, when a root canal diagnosis is uncertain and TMJ is a possibility, it's better to try treating for TMJ first.

Gottehrer agrees: "Whatever treatment is the least invasive and offers the greatest amount of relief is the best approach. There has been an excessive amount of expense and unnecessary surgery for misdiagnosed patients." NB

When both spouses are employed, they should calculate precisely what their "second" income is really worth after all the taxes and extra expenses are taken into account.

It's Your Money

By Paul N. Strassels

A Spouse's Income Costs As Well As Pays



PHOTO: ©CARY WOLINSKY—UNIPHOTO

Working couples have become the rule rather than the exception. In more than half of all marriages, both husband and wife work outside the home.

With two incomes rather than one, a couple might be able to afford better housing, fancier cars, luxurious trips, greater savings, and financial peace of mind.

But working couples don't keep all they make. From their joint incomes, they pay Social Security and federal, state, and sometimes local income taxes.

In addition, they may incur expenses for child care, transportation, work clothing, fast food for the family, housekeeping help, and more.

What's left after taxes and extra expenses often is much less than you might think.

Those who are married with both spouses working, as well as those with an at-home spouse who is considering rejoining the work force, should calculate precisely what the salary that they might call their "second" income is worth after all the taxes and extra expenses are taken into account. Those couples should ask themselves the following:

- How much spendable income will be lost if the spouse bringing in that second income becomes unemployed? It could happen because the spouse is fired, quits, retires, leaves to start a family or care for a family member, becomes disabled, takes a sabbatical, or must give up a job because the other spouse is accepting an out-of-town transfer.
- Is the financial return worth the time and effort put into a job? After careful analysis, you may find that it is smarter to quit your present job and return to school for additional training that will qualify you for a better position, or even for a new field. Or you may decide it makes more sense to go to work for yourself.

The expense that hits working couples hardest is taxes, despite the recent cut in federal tax rates. Even with tax reform, federal taxes take a sizable chunk out of that second salary, because the tax law lumps the second salary on top of the first. Chances are, only the first salary will be taxed at the 15 and 28 percent tax rates, and then, if it is large enough, at the 33 percent rate, while the second salary—when added to the first—may be taxed entirely at 33 percent. In such a case, if that second salary amounts to $30,000, the Internal Revenue Service will get $10,000.

Next, consider Social Security. In 1989, employees pay 7.51 percent on the first $48,000 they earn. On that $30,000 salary, the government gets $2,253.

Finally, take out state and local income taxes. These vary from state to state and from city to city. Some areas have no local taxes, while others impose stiff levies.

It's not unusual to find state and local taxes reducing wages by an additional 5 percent. In this example, that comes to $1,500.

So, after taxes, that original $30,000 salary is reduced by 46 percent, to $16,247.

That may be further cut by deferred-compensation plans, employee retirement accounts, and required contributions to health plans and other employee benefits.

Moreover, although tax reform reduced individual income tax rates, many deductions that were particularly helpful to working couples have been repealed or curtailed.

The deduction for two-earner couples was axed, and so was income averaging. The deduction for Individual Retirement Accounts is not available to many working couples any more because of the $50,000 income ceiling.

Other expenses enter into the equation, costly items that can mean the difference between accepting a job and turning it down because it doesn't pay enough.

For example, if you will have to drive to work, you may need a second car. Add to the cost of the car itself the costs of gasoline, repairs, and insurance. You could spend $1,500 to $5,000 a year for transportation.

Then there is work clothing. A new job may require a new wardrobe. You may spend $800 to $3,000 a year for clothing, depending on your tastes and line of work.

Child care can cost $2,000 to $6,000 a year, or even more. You might prefer a sitter in your home or child care at a separate facility. Depending on your income and child-care expenses, you can get a tax credit of up to $720 a year for one child, $1,440 for two or more.

Long hours at the office usually mean more meals eaten in restaurants. You probably will spend more for dry cleaning. You'll pay others to help with yard work and housecleaning—at costs of up to $100 a week.

There's more to working than making money. There are intangibles on both sides of the equation: pride, personal and career development, being home for the kids after school, having time to volunteer at a church or hospital.

But when money is the crucial factor, consider all the costs when deciding whether or not one spouse should take or keep a job. ■

For Your Tax File

Home Is Where The Shelter Is

By Gerald W. Padwe, C.P.A.

You probably are familiar with a tax rule that excludes from income the taxable gain on the sale of a principal residence if the proceeds are reinvested in a new home within two years.

Since there is no such thing as a free lunch (except one time when you sell a house after you reach 55, as you'll see later in this item), you should not be surprised to learn that excluding the gain when you sell your house has a trade-off. When you exclude the gain, you reduce your new home's tax cost—the base amount from which you calculate any gain when you sell that house. You defer the gain on this sale, but you add it on to what you must report on the sale of your next house.

Here is how the rule works. Assume you bought your first home some years ago for $75,000, and have just sold it for $130,000—a $55,000 gain. Your new home cost $160,000. For tax purposes, since the new home cost more than the sales price of the old, you do not report the $55,000 of gain from the sale. However, that $55,000 reduces your tax cost in the new home from the $160,000 you paid to $105,000. If you later sell the new home, your gain on that sale will be based on a tax cost of $105,000.

After moving up the economic scale and reaching retirement, many taxpayers have gone through several home sales in which their gains were not taxed.

Now the arithmetic catches up. The tax cost of the last large home is artificially very low. The home for retirement years may cost much less than the sales proceeds of the prior large home, causing a substantial amount of income to be reported in the year the large home is sold. Though the income is capital gain, it is taxed at the rates for ordinary income.



Gerald W. Padwe is national director-tax practice for Touche Ross & Co. Readers should see tax and legal advisers on specific cases.



PHOTO: © WALTER HODGES—WOODFIN CAMP

Just sold your house for more than you paid for it? Put the gain back into another principal residence within two years, and you'll eventually reap a tax break.

Recognizing this problem, our tax laws permit a special exclusion from income reporting of up to $125,000 from the sale of a home for taxpayers age 55 or older. The exclusion is elective but can be made only once in a taxpayer's lifetime. It does not have to be applied to the first home sold after 55, but the home must have been owned and used as a principal residence by the electing taxpayer for three of the five years preceding the sale.

If the home is jointly owned by husband and wife, the exclusion may be elected even though only one has reached 55. If the husband has transferred title in the home to his wife, say for estate-planning purposes, and he has reached 55 but the home is sold before she attains that age, it is not possible to exclude $125,000 even though they file jointly.

Application of the exclusion provisions can be somewhat more complex than this explanation indicates. If properly planned, however, it is not a deferral of income but an outright forgiveness of tax on up to $125,000 of gain—a free lunch from the IRS.

IRA Rollover's Ironclad Deadline

This column has commented from time to time on the extremely stringent rules for rolling over a distribution from one qualified benefit plan (including an IRA) to another. The Internal Revenue Code requires that such rollovers be made within 60 days. Since the 60-day period is in the law, the IRS insists it must be taken literally.

But what if a taxpayer acts completely in good faith, believes the rollover is being accomplished in a timely fashion, but for reasons outside his control finds the 60-day frame has been violated?

In a private ruling to such a taxpayer, the IRS gave its views. A woman decided to change the investment vehicle she was using for her IRA from one company's mutual fund to another's. She closed her first account and received a check for the full amount of her IRA funds on Aug. 14.

Knowing she had 60 days to roll over the distribution, she looked into the investment records of other funds. She settled on one and wrote a check to open a new IRA account on Oct. 7.

Because of a bank error (there was no question in this ruling that the taxpayer was totally without fault), the Oct. 7 check was not honored by the bank. The taxpayer did not discover this error until the check was returned on Oct. 22 for insufficient funds. Actually, the funds in her account more than covered the amount of the check. She immediately wrote a new check and deposited it, and the account was opened.

Sorry, said the IRS. You had to have the funds deposited by Oct. 13, 60 days after the Aug. 14 withdrawal. You failed to do that. Granted, you were not at fault. But the statute says "60 days," and there are no exceptions for someone else's fault and no provisions to waive the time limit. Thus, the original IRA distribution funds were taxable.

If you, like many taxpayers, ever take advantage of the annual opportunity to change your IRA investments, remember that the 60-day period for making such changes is absolutely inflexible. NB

IRS To Implement Backup Withholding

By Paul N. Strassels

Take notice, all of you who pay—as well as those of you who receive—dividends, interest, payments for services, investment proceeds, and royalties. The IRS is ready to implement 20-percent backup withholding.

Those who receive such payments must make certain that they furnish their correct taxpayer-identification numbers (TINs) every time payers ask. Those making payments must request that all payees supply their tax ID numbers, and the payers must keep those TINs on file in case the IRS should ask for them.

Backup withholding works like this: The IRS receives Form 1099 income information (dividends, interest, investments, royalties, and independent contract work) from bankers, investment brokers, businesses, and others. The agency matches that information with the amounts reported by taxpayers on their tax returns.

Taxpayer-identification numbers or Social Security numbers are used to make the matchups. When a discrepancy is detected between the income reported on a return by a taxpayer and the amount that a payer has reported was paid to the taxpayer, the agency sends out a letter asking for an explanation.

When a taxpayer inadvertently or purposely furnishes an incorrect TIN, however, the IRS cannot match the income against the proper return. In that case, the business, bank, investment broker, or other payer will be instructed by the IRS to withhold 20 percent of the funds and send the money to the IRS.

With backup withholding in place, the IRS is confident that:

- The TIN will be corrected and the taxpayer will report the income and claim the amount withheld as a tax payment on his return.
- Or, if the corrections are never made and the income is never matched to the appropriate taxpayer, the government at least will have the taxes to cover the income.

The IRS's computer equipment and programming then can send correspondence to payers, cross-check the tax returns of those who receive such income to make certain it is properly reported, and notify those who pay to begin backup withholding when necessary.



Paul N. Strassels, president of Money Matters Inc., Burke, Va., is a tax-law specialist and financial adviser.



PHOTO: T. MICHAEL KEZA

Using computers to match up the facts and figures of dividends, interest, and other income reported by payers and payees alike, the IRS can quickly detect discrepancies.

Minority Shareholders Have Rights, Too

The only thing worse than owning only 5 or 10 percent of a private corporation is to own 49 percent.

The majority shareholders can freeze you out of the decision-making process. But at least you can look at the company's finances. If you own 1 percent or more of the company's stock, contact your local IRS office and ask to see the corporate return and other tax information.

Can't Pay Your Taxes? Tell The IRS

If you owe the IRS money but you don't have the funds, your situation is serious but not hopeless. Acknowledge the tax debt and the fact that you will have to pay interest on it until the taxes are paid. In the meantime, avoid the penalty for failure to pay, which amounts to 0.5 percent of the unpaid tax for each month it remains unpaid, up to 25 percent.

Use IRS Form 1127, Application for Extension of Time for Payment of Tax. It's not automatically approved. To the contrary, you must be able to show that you are unable to borrow to pay your taxes, except, perhaps, on terms that would cause a severe hardship.

Inherited IRAs

Despite congressional restrictions on who can make tax-deductible contributions to Individual Retirement Accounts, IRAs continue to thrive, mainly because accounts established and funded prior to recent tax-law changes have not been—and probably will not be—tapped by their owners prior to retirement.

But what happens to an account when its owner dies?

If the account is inherited by a surviving spouse, the IRA can be rolled over into his or her own IRA.

For all others who inherit an IRA, the money must be distributed within five years of the date of death. Predictably, there are exceptions to these rules. If the owner was receiving distributions from the account prior to death, the same payment schedule may be used by the IRA's beneficiary. Also, if the survivor was the designated beneficiary, the account may be distributed to the beneficiary over his or her life expectancy. NB

PEOPLE

Making It

One couple's "hands-on" entrepreneurial success and a couple of profitable approaches to fashion on a grand scale.

Music To Their Ears

Sometimes, John Lenser's experience suggests, the way to succeed in business is to observe what everyone else in a field is doing, and then do just the opposite.

Take music-box stores. "The typical thing we found," Lenser recalls, "was a young woman, working behind a counter, wearing designer jeans and reading a paperback book, who could not have cared less about what was going on in the store.

"Usually, too," he continues, "you found the prices were stuck on the bottom of the product with a little price gun—but there were also signs, if it was a music box or breakable, that said, 'Do not touch, ask for help.' Or, 'If you break it, you buy it.' People have had that drummed into their heads since they were little kids. . . . You almost feel guilty when you touch."

But not in the San Francisco Music Box Co.'s stores. Lenser and his wife, Marcia, founded the company almost 11 years ago, when they opened their first store in Pier 39, one of the collections of tourist-oriented shops on the San Francisco waterfront. They decided, Lenser says, that all those negative messages would have no place in their store. "We tell our staff, 'If somebody looks cross-eyed at an item, you pick it up, wind it up, and hand it to them. Get the product into their hands.' "

It is a simple business philosophy, and it works, Lenser says. "We just reacted to how we saw other people running their businesses in a way we thought was crazy."

By the time the critical Christmas shopping season was under way last fall (50 percent of the company's sales come in the fourth quarter), the San Francisco Music Box Co. had opened 72 stores all across the country, up from 15 in 1986.

Each store typically carries 800 to 1,000 music boxes and other items (such as stuffed bears) with musical innards. Sales more than tripled in two years—from $11 million in 1986 to $38 million in 1988—thanks to the rapid expansion that an $11 million infusion of venture capital permitted.

John and Marcia Lenser, founders of the nationwide chain of San Francisco Music Box stores, demonstrate one of their key marketing precepts: Put the product in the customer's hands if you want to sell it.



PHOTO: ©ROBERT HOLMGREN

It is an impressive performance, especially since both John Lenser, 44, the company's president, and Marcia Lenser, 43, executive vice president, embarked on their business with something less than abundant experience in retailing. He was a criminal-justice planner, she was a teacher in the public schools of nearby Oakland. After 12 years of marriage and two children, they were looking for a business to run on the side. They settled on music boxes more or less by accident.

Pier 39 was being built then, Lenser recalls, and "I called over there, just to see what they were interested in. I got this lady on the phone who was a real tiger. She wanted to know what kind of business I had, and I said, 'What are you looking for?' She said, 'That's for you to tell me, not for me to tell you.' " Lenser had recently been in a store that sold antique music boxes and antique clocks, "so I just blurted out, 'Clocks, pianos, music boxes.' She said they were looking for somebody to run a music-box store."

The Lensers put all the money they had—$25,000—into stocking that first 500-square-foot store. Within two months after its October 1978 opening, the store was so successful—it went on to $600,000 in sales its first year—that the Lensers had to quit their jobs and become full-time retailers. In 1979, they opened their second store, which was, like all of those to come later, in a suburban shopping mall.

In 1980, the Music Box Co. began mailing a catalog. By 1986, before the big push to open new stores, the catalog accounted for close to one-third of the company's sales. Because the company could count on large sales of the music boxes shown in the catalog, it could order large quantities, which meant, in turn, that it could design and sell exclusive items.

The company's rapid growth has not been trouble-free. It took a while, John Lenser says, to overcome "terrible computer problems." Now growth will slow down a little, with only about two dozen new stores scheduled to open this year, compared with 35 last year.

Slower growth for a year "will allow

Music To Their Ears

us to bring some profit in," Lenser says. "There comes a point at which you cannot continue to deal with your bankers and your investors on the promise of better things to come. And although we have never lost money, we certainly have compromised our profit, simply because of the extra overhead it takes just to operate the rollout."

Bringing the San Francisco Music Box Co. so far, so fast, has been hard, Lenser admits, but rewarding as well: "After two or three years at a particular plateau, you begin to say, hey, this is just repetitious work. I'm still sweating, and maybe things are getting a little bigger, but there's not any true excitement and challenge. Well, getting involved with a venture group is certainly a challenge. And as long as you're moving fast, you don't think about any of the negatives."

—Michael Barrier

Threading The Needle

Hector Cruz, designer and fashion consultant, owns two Washington-area tailoring shops that serve the capital's political and social notables as well as others who "don't want to sacrifice that creative personal touch."



PHOTO: © RHODA BAER

While other schoolboys in his neighborhood in Argentina 40 years ago were playing soccer in the streets, Hector Cruz was inside, sewing. At the age of 9, he started work as a tailor's apprentice. Today, Cruz is still sewing, but in a very different place, and for profit.

His affinity for design has brought him a long way from the back streets of Buenos Aires. Cruz is now a fashion consultant, designer, and owner of two Washington-area tailoring shops that serve many of the capital's social and political notables, such as aides to the president. In addition to Hector's Tailoring in Rockville, Md., Cruz has a shop in the Pentagon complex—a shop not open to the public—where his clients are Defense Department officials.

Cruz creates clothing—from business apparel to evening gowns—for men and women who want to look their best. "Washington people are interesting," he says. "They really don't want to sacrifice that creative personal touch."

In his school days, he frequently toiled as an apprentice until 9 at night before beginning his homework. These days, Cruz can often be seen in one of his shops until 8 p.m. Instead of juggling work, algebra problems, and sports, as in his school days, Cruz now must balance the needs of family, friends, and 2,500 regular customers.

When Cruz moved from Argentina to Washington in 1970, he had problems with the language and with others' lack of appreciation for his craft. Argentinians traditionally have valued stylish, high-quality clothing, Cruz says, but in the throwaway society of the U.S., people sometimes forget the importance of investing in quality garments. "My styles don't always mesh with fickle tastes," Cruz says. "But in the last 20 years, U.S. fashion has changed like 50 years."

While Cruz worked at Sam's Tailoring and later at Lord & Taylor, word of his skills spread. After saving money and gathering a following of clients, Cruz bought Sam's Tailoring and opened it as Hector's Tailoring in 1974. He opened the Pentagon store 10 years later and will open a third store this spring, in a suburban shopping area.

Cruz and his staff of 12—he added four during the busy inaugural season this year—serve more than 1,500 customers each month, and he tries to give all of them an equal amount of attention. "This is a dying art," he says. "Tailors have forgotten that the customer is doing you a favor. It is an honor to work with my clients, so I treat them the way they should be treated."

Cruz attributes his stores' popularity to his willingness to take the time to satisfy his customers. In return, Cruz's customers are happy to pay $600 to $1,500 for a suit, depending on the type of fabric used. Customers can choose from among more than 6,000 fabrics gathered from places as distant as England, France, Italy, and Switzerland.

Because Cruz offers a custom-made perfect fit along with his exclusive design, "at least 40 hours are needed to make a complete suit," he informs his customers. From the initial order to the final fitting—which is sometimes the third or fourth—the entire process takes about a month.

"Every look is not for every person," he emphasizes. "I design most of the garments I make and fit them to each individual client. I rarely use a pattern."

You say you have no time to come into one of his shops? Cruz will come to you—office or home, tape measure and fabric samples in hand. "I want to make things as easy as possible for my customer," he explains.

Despite a growing demand for his services, Cruz has no plans to enlarge his business. He has as much work as he can handle. Besides, he says, "I don't want to be just for everybody. I would never mass-produce. That's what makes me different. I take the time to know exactly what the people want. I've earned client respect and confidence. They trust what I say and keep coming back."

Although owning and managing a small business means that "you have to do a lot of things for yourself—from windows to memos—the reward for building a name for yourself is worth everything," he says. His advice to other small-business owners? "Relax, be proud of yourself. Everything else will come."

—Alison A. Knocke

Woman With A Large Idea



PHOTO: ©RICHARD HOWARD

Trudy Deane Sullivan's T. Deane stores, mainly in affluent areas along the East Coast, specialize in clothing for women who wear sizes 14 through 26—"a very under-recognized market."

For a half dozen years, Trudy Deane Fulham Sullivan was a buyer for the Jordan Marsh department-store chain in Boston. "I knew I had to dress well," she says, "but to try to find something that could accommodate my size was increasingly frustrating. There was a huge gap between what I could buy for my customers and what I could get for myself."

Sullivan, 39, is a size 14. "I've been this size for my entire adult life," she says, "despite repeated dieting." Many women her size, she says, "do unbelievable things to try not to fall into this size category. But they do. And it's not just weight, it's how you're built. There are a lot of physically fit women—who aren't overweight—who are just large.

"It's a very under-recognized market. The whole garment industry is geared to women who are size 8."

Unlike most women suffering the same frustration, Sullivan could—and did—do something about it. In October 1985, in Wellesley, Mass., she opened the first T. Deane store, specializing in clothing for women who wear sizes 14 through 26. Now the company, based in Canton, Mass., owns 21 T. Deane stores, and Sullivan is chairman and chief executive officer. Most of the stores are in affluent areas on the East Coast, but T. Deane has outposts as far west as Chicago and Dallas. Sales last year topped $15 million.

Stores specializing in such large sizes are hardly new, but as T. Deane's meteoric rise attests, Sullivan's merchandising instincts and timing appear to have been especially good.

T. Deane stores, and the clothing in them, look classy and understated. They speak of fashion first and size second. Sullivan deliberately chose a name that says nothing about size: "I wouldn't feel comfortable walking around with a bag that said 'Fat Fashions.' "

As for her timing, she got in the business when the fashion industry was starting to change its mind about the large-size market; Liz Claiborne, for example, will add a large-size line next fall. As America grows older, it grows larger. Sullivan, citing figures derived from the 1980 census, says one-third of American women now wear large sizes.

Even now, though, filling T. Deane stores with the right kind of upscale merchandise is not always easy, and Sullivan must rely more than she likes on private-label clothing; it makes up close to half of what she sells. "We're not trying to be designers," she says. If she could buy from the market, she explains, and could get "100 percent of our needs, we would probably do that, because our customers really like brands. But it doesn't work that way."

Whatever the difficulties in stocking a T. Deane store, the stores themselves betray little of that strain. "The time I'm most happy with what we're doing," Sullivan says, "is when . . . a woman comes in who isn't our size, but who is attracted by what she saw in the window of the store. That means we look like a fashion store."

Sullivan first thought of opening a store of her own in 1979, and she sought financing from her father, Gerard A. Fulham, then the chairman and CEO of Pneumo Corp. in Boston. Though she had experience as a buyer at Jordan Marsh, her father told her: "You don't know anything about stores. I can't back you until you know something about stores."

Sullivan responded by taking a job with the Filene's department-store chain. "I stayed there seven years and ran large mall stores, 110,000 to 140,000 square feet," she says. "I was general manager, so it was like my own business."

With that experience behind her, Sullivan's father lent her the money to open her first store. When that store turned out to be a roaring success, with first-year sales of almost $1 million, Fulham joined in 1987 with several venture-capital firms to finance T. Deane's expansion.

"There are a tremendous number of components to opening a business," Sullivan says, "and I think as much as you read about it or study about it or listen to other people's experiences, unless you go through it, it's hard to describe."

Someone might speak in similar terms if they were describing having a child, and for Sullivan that analogy is especially appropriate: Both of her children were born after she started T. Deane. "The business was planned," she says. "The kids weren't." She learned she was pregnant with her first child six weeks after she resigned from Filene's. (Her husband, Michael, is a former Wang Laboratories executive who is now T. Deane's executive vice president.)

"With both children," she says, "I took 12 days off. You have a tremendous motivation when it's your own business; it's like a child itself." But, she adds, sometimes she thinks her pregnancies were "part of a grand design, to keep me from being a workaholic. The easiest thing in the world would be to be here from 7 in the morning to 10 at night, but I can't do that. I work a lot of hours, but I also spend time with my kids. It made me keep my life a bit in balance. I hope it will make me a much more sensitive executive to other women who are in the same position."

—Michael Barrier

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2. Make Tuition-Loan Interest Deductible?

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2. Make Tuition-Loan Interest Deductible?

Only a fraction of interest paid on unsecured loans for education-related expenses is tax-deductible, and none of this interest will be deductible after 1991. Credit-card and other unsecured consumer-loan interest is treated similarly. Some in Congress want to make education-loan interest fully deductible. Pursuit of education, they believe, should be encouraged more than acquisition of consumer goods. Opponents focus mainly on the revenue loss that would result from full deductibility. Should Congress make education-related loan interest fully tax deductible?

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The tax credit for research and development, first enacted in 1981 at a rate of 25 percent, has been extended and adjusted periodically. The current 20 percent credit expires Dec. 31. Some in Congress want to make this credit permanent, at 25 percent. This, they say, would provide firms with the incentive and security essential to long-range planning. Most opponents argue against the use of tax credits to promote one economic activity over others. They also point out that credits increase the deficit. Should Congress make permanent the research-and-development tax credit?

Verdicts On January Poll

Here is how readers responded to the questions in the January issue.

	Yes	No	Undecided
Will new federal budget policies foster continued economic expansion?	68%	17%	15%
Will customers curtail 1989 spending significantly?	30%	61%	9%
Will the new Congress endorse organized labor's agenda?	16%	65%	19%

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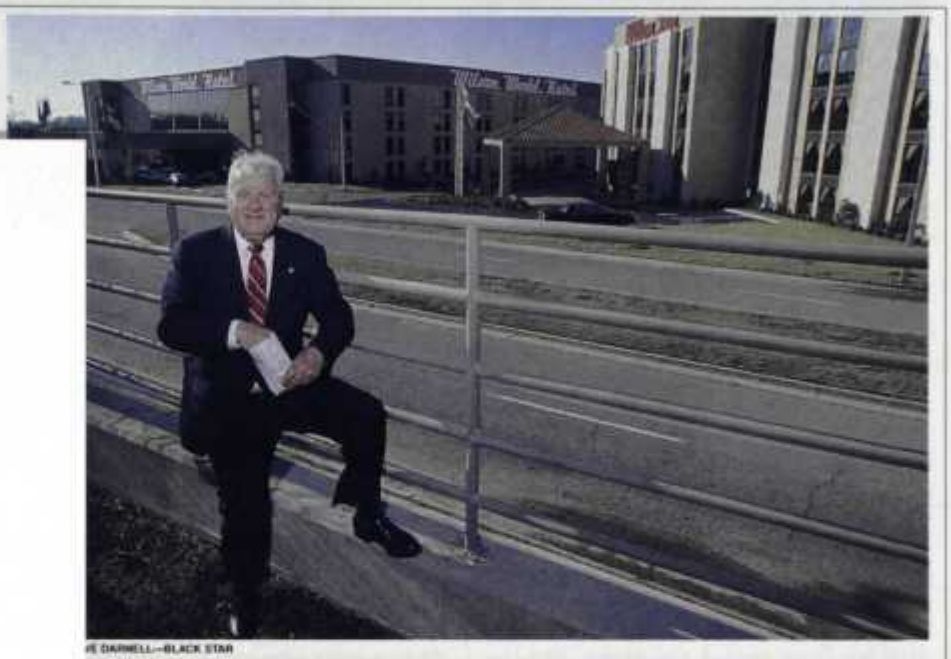
LESSONS OF LEADERSHIP

Kemmons Wilson Changes His Mind

When the founder of Holiday Inns retired, he said he'd done it all in the hotel business. But then he came up with Wilson Inns.

By Michael Barrier

He is, Kemmons Wilson says, a man who hates detail work. But he means financial details. When it comes to other kinds, he is a detail man par excellence. His attention



E DARNELL—BLACK STAR

ons Wilson founded Holiday etired—and kept busy, g Wilson World hotels and Inn budget hotels, such as n Memphis.

onto the wood.

The worker wanted to know how many strips he should affix to each rack—four? "That's what I'm going to tell you," Wilson said, but first he had to see the strips spread out on the rack. The number he settled on: six.

Wilson is a bulky, rumpled man whose shirttail tends to sneak out of his pants as he bustles around one of his projects. He is a member of a passing generation of Southerners—with the elaborate courtesy of an earlier time, he calls much younger women "ma'am"—but he makes no concessions to age. Even a slight hitch in his walk, which might seem to be one price of advancing years, turns out to be a relic of a childhood accident that put him in a body cast for 14 months.

He is a classic entrepreneur. Money matters to him mostly because he can use it to do things, being in business is more important to him than the kind of

ss he is in, and he knows that and imagination count for more xpertise. "When I started in the usiness," he says of his early ith Holiday Inns, "the most I'd ever done is sleep in a hotel."

A native of Osceola, Ark., Wilson moved to Memphis with his widowed mother when he was 9 months old. After he quit high school at 17, he worked briefly for a cotton brokerage—his only job on someone else's payroll, he relishes saying—and then moved on to a popcorn concession in a movie theater. From there he went on to build a small empire in pinball machines, jukeboxes, and cigarette machines. He sold that business for a profit of $250,000 when he entered the Army in World War II. By that time he was a home builder, too—he had started by building a house for his mother in 1933—and he made construction his principal business after the war.

In 1951, Wilson took his wife, Dorothy, and his five children, who were then all under 10, on an automobile trip to Washington. The Wilson family's unhappy experiences in motels persuaded Kemmons Wilson that he could do better. "They charged two dollars extra for each child," Wilson recalls. "My $8 room became $18. That's when I told Dorothy I was going to start a chain, and we'd never make a charge for children as long as they stayed in the same room with their parents." Other shortcomings bothered him: The motels weren't clean, they often didn't have pools, and they charged a dollar extra for a television set.

"As I made that trip," Wilson says, "I measured every room, I figured out all the things I thought were right and wrong, I made all kinds of notes, and I came back here and had my draftsman draw up the right way." Wilson opened the first Holiday Inn on Aug. 1, 1952, on Summer Avenue, then one of the main highways into Memphis.

Wilson built the first four Holiday Inns himself, then took on a partner to help him build more. By the mid-'50s they were franchising. The construction of the interstate highway system spurred Holiday Inns' growth, but the biggest boost came in the early '60s, when Wilson put his personal fortune on the line so Holiday Inns could buy an $8 million computerized registration system. It enabled travelers to reserve rooms at Holiday Inns anywhere in the country with one phone call to the nearest hotel in the chain. Business in-

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LESSONS OF LEADERSHIP

Kemmons Wilson Changes His Mind

When the founder of Holiday Inns retired, he said he'd done it all in the hotel business. But then he came up with Wilson Inns.

By Michael Barrier

He is, Kemmons Wilson says, a man who hates detail work. But he means financial details. When it comes to other kinds, he is a detail man par excellence. His attention to detail won him dazzling success with the Holiday Inns chain, which he founded in 1952 and ran until his retirement in 1979. Now he is back in action, building another hotel chain, a chain of budget hotels bearing his name. And, once again, he is bearing down on the details.

In January, a few days after his 76th birthday, Wilson was prowling through his second Wilson Inn, a five-story, 108-room hotel under construction just off Interstate 40 in eastern Memphis, Tenn. (The first Wilson Inn opened last October, a few miles away near the Memphis airport.) The new hotel was almost finished, with its opening two or three days off, and Wilson was conferring with one worker on "an invention of mine."

Everyone who has spent much time in motel rooms knows the low-slung dressers or chests that double as luggage racks—there's just enough room on top for a suitcase. When a suitcase is flung on one of those racks, it can easily scar the wood, so Wilson came up with the idea of attaching gilt plastic strips atop the racks, so that suitcases would fall onto them and not directly onto the wood.

The worker wanted to know how many strips he should affix to each rack—four? "That's what I'm going to tell you," Wilson said, but first he had to see the strips spread out on the rack. The number he settled on: six.

Wilson is a bulky, rumpled man whose shirttail tends to sneak out of his pants as he bustles around one of his projects. He is a member of a passing generation of Southerners—with the elaborate courtesy of an earlier time, he calls much younger women "ma'am"—but he makes no concessions to age. Even a slight hitch in his walk, which might seem to be one price of advancing years, turns out to be a relic of a childhood accident that put him in a body cast for 14 months.

He is a classic entrepreneur. Money matters to him mostly because he can use it to do things, being in business is more important to him than the kind of

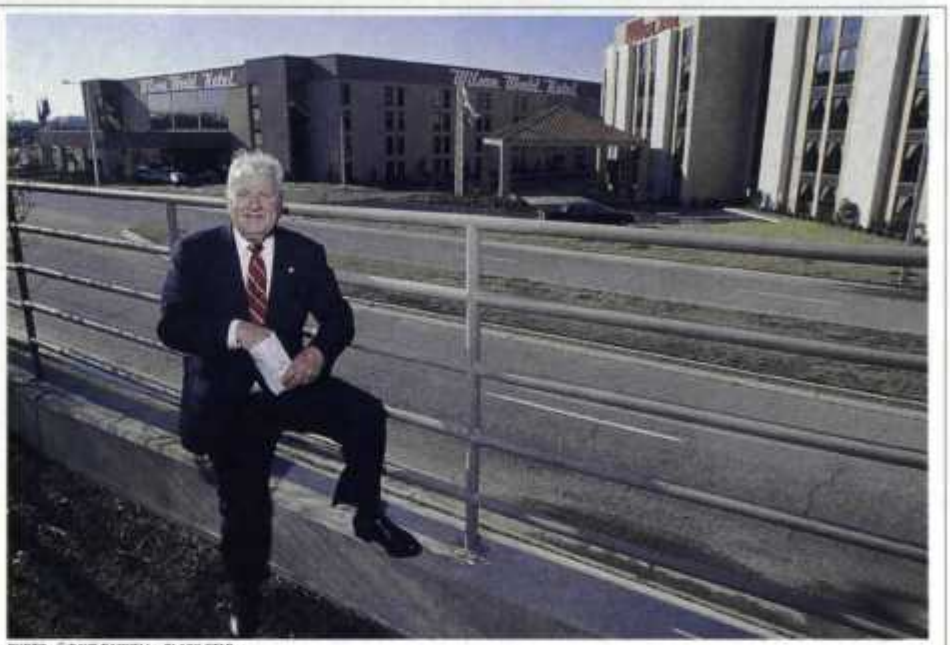


PHOTO: © DAVE DARNELL—BLACK STAR

Kemmons Wilson founded Holiday Inns, retired—and kept busy, building Wilson World hotels and Wilson Inn budget hotels, such as these in Memphis.

business he is in, and he knows that energy and imagination count for more than expertise. "When I started in the hotel business," he says of his early days with Holiday Inns, "the most I'd ever done is sleep in a hotel."

A native of Osceola, Ark., Wilson moved to Memphis with his widowed mother when he was 9 months old. After he quit high school at 17, he worked briefly for a cotton brokerage—his only job on someone else's payroll, he relishes saying—and then moved on to a popcorn concession in a movie theater. From there he went on to build a small empire in pinball machines, jukeboxes, and cigarette machines. He sold that business for a profit of $250,000 when he entered the Army in World War II. By that time he was a home builder, too—he had started by building a house for his mother in 1933—and he made construction his principal business after the war.

In 1951, Wilson took his wife, Dorothy, and his five children, who were then all under 10, on an automobile trip to Washington. The Wilson family's unhappy experiences in motels persuaded Kemmons Wilson that he could do better. "They charged two dollars extra for each child," Wilson recalls. "My $8 room became $18. That's when I told Dorothy I was going to start a chain, and we'd never make a charge for children as long as they stayed in the same room with their parents." Other shortcomings bothered him: The motels weren't clean, they often didn't have pools, and they charged a dollar extra for a television set.

"As I made that trip," Wilson says, "I measured every room, I figured out all the things I thought were right and wrong, I made all kinds of notes, and I came back here and had my draftsman draw up the right way." Wilson opened the first Holiday Inn on Aug. 1, 1952, on Summer Avenue, then one of the main highways into Memphis.

Wilson built the first four Holiday Inns himself, then took on a partner to help him build more. By the mid-'50s they were franchising. The construction of the interstate highway system spurred Holiday Inns' growth, but the biggest boost came in the early '60s, when Wilson put his personal fortune on the line so Holiday Inns could buy an $8 million computerized registration system. It enabled travelers to reserve rooms at Holiday Inns anywhere in the country with one phone call to the nearest hotel in the chain. Business in-

Kemmons Wilson Changes His Mind

"I've been accused of many things in my life, but never of indecision," says entrepreneur Kemmons Wilson. "I always made up my mind, and we went."



PHOTO: ©DAVE DARNELL—BLACK STAR

creased, and franchise applications poured in. "From that day on," Wilson says, "it was just a matter of allocating franchises."

By the early '70s, more than 1,400 Holiday Inns circled the globe. But the energy crisis of that decade drove down the company's earnings and precipitated management changes. Wilson started to feel like a stranger in his own company. "I've been accused of many things in my life, but never of indecision," he says. "I always made up my mind, and we went." That entrepreneurial style was out of place in Holiday Inns as it had evolved by the late '70s; instead, Wilson complains, "everything was run by committees."

In March 1979, after a heart attack, Wilson underwent open-heart surgery. From his hospital bed, he put through a conference call to his board of directors, urging them to reject the proposed acquisition of a restaurant chain. The board voted against him. He decided then to get out, and he retired from Holiday Inns in June 1979.

A few years after he retired, Wilson was quoted as saying that when he left Holiday Inns he "had done all you could do in the hotel business." But now he says, "Only a fool doesn't change his mind."

After he retired, Wilson began dabbling in new businesses—he even became a manufacturer of nacho chips—and then he started edging back into the hotel business. First there was a time-sharing resort. Then he built a Wilson World condominium hotel, then two traditional hotels named Wilson World, and now he is building four more.

But the Wilson Inns are, he says, his "new toy." He announced the new chain a year ago and predicted that 100 inns would be under construction before the year was out.

Only nine inns have been built or started, but, Wilson says, that is only because he decided to hold off franchising until he got all the bugs worked out of his idea.

Wilson pioneered the standardized motel room. Early Holiday Inns all had 120 rooms—each with one or two beds—in four one-story buildings. Now, he says, land prices have made only high-rise inns practicable, and no one has brought the same standardization to them that he brought to the early Holiday Inns: "I'll bet you no one's ever built a five-story building 11 times."

Standardization does not mean old-style cookie-cutter uniformity, however. Wilson is building his new inns by hanging concrete slabs from 45-foot steel columns, spaced 15 1/2 feet apart. That means there are no load-bearing walls, and that means in turn that the rooms in a Wilson Inn can fit together in ingenious ways. The rooms come in 11 styles and sizes; some have kitchens, and two have not only a pair of queen-sized beds but also an alcove with bunk beds, permitting families with several children to stay in one room.

Each room has a desk and a refrigerator, and local phone calls are free—features that Wilson hopes will appeal to business travelers.

After Wilson left Holiday Inns, some of his former colleagues claimed he had grown outdated because his idea was to "build 'em cheap," but, he says, "my idea is still to build 'em cheap and sell 'em cheap." He rattles off the figures:

"If we can run 65 percent occupancy, we can make a good return. We're producing these rooms for about $17,000 [per room], and let's say $4,000 for furnishings. If the lot cost $200,000, that's $2,000 [per room], about $23,000 [per room, for everything]. The old rule has been that you get a dollar per thousand, for whatever you're spending. You can make money at $23 a night, but you can make a lot of money at $29 a night."

And so, rooms at the Wilson Inns start at $29.95 a night, for a single. That is a reasonable price in today's market, but within a few miles of the first Wilson Inn, on the interstate loop through southern Memphis, other chains are advertising single rooms for $5 and $7 less. Those rooms may not be the equal of the Wilson Inn's, but Wilson is facing formidable competition in the "luxury budget" market: Quality Inns, for example, is planning a chain of 200 Sleep Inns, whose rooms will have refrigerators and TV sets with built-in videocassette recorders—and will rent for around $30.

When Wilson started Holiday Inns, its combination of reliability, comfort, and a reasonable price was revolutionary. There is nothing comparably novel about the Wilson Inns, or, for that matter, about Wilson's competitors. Today, success will likely go to the budget-motel chains that strike the best balance between price and services, and Wilson's long experience may have made him the best judge of how to do that.

And if not—well, he has lots of other irons in the fire. Dozens of them, all under the umbrella of Kemmons Wilson Cos. He has a big stake in a company making potpourri, and he is still active (usually as a 50-50 partner) in a construction company, an indoor sports complex, and lots of other enterprises.

Is there *any* kind of business he would avoid? "I don't do anything unless I think it's going to be fun," Wilson says as he drives a visitor to one after another of his properties. Then he points out a cemetery in which he owns a half interest. *A cemetery?* Is it fun to be in the cemetery business?

"I don't have to go near it," he says. "That makes it fun." NB

COMMENTARY

Congressional Alert

Here, in brief, are important legislative issues along with suggestions from *Nation's Business* on what you should tell members of Congress about them. Addresses: U.S. Senate, Washington, D.C. 20510 and U.S. House of Representatives, Washington, D.C. 20515.

Options For Child Care



PHOTO: T. MICHAEL KEZA

By the year 2000, 60 percent of adult women will be working, and they will make up about 47 percent of the labor market. Children or dependents who previously had been cared for in the home by a nonworking female may require other forms of care. Businesses have found that they can best address work-and-family concerns through voluntary, flexible personnel policies or employee benefits. These policies lead to higher employee morale and productivity, result in more successful recruitment and retention, and stem excessive absenteeism.

The U.S. Senate and House of Representatives are likely to consider child-care proposals in the 101st Congress. The House Education and Labor Committee scheduled hearings on H.R. 30, the Child Care Assistance Act, which was introduced by Rep. Dale Kildee, D-Mich. The bill would establish a federal program for child-care assistance and federal guidelines for day-care centers. A similar bill, S. 5, has been introduced in the Senate by Christopher Dodd, D-Conn.

Contact your senators and representatives to urge them to support proposals that would give employers incentives to make child care more affordable and available, limit the federal government's role to addressing the liability-insurance crisis as a factor in day-care shortages, and identify programs and demonstration projects. Tell lawmakers that any appropriate regulation of child-care services should be a function of state and local authorities.

Mandated Health Benefits



PHOTO: ©LEIF SKOOGFORS—WOODFIN CAMP

Employer-provided health-care benefits form the major source of health insurance for workers and their families. Employers provide health-care coverage to 132 million people, 84 percent of the total private health-care coverage in the nation.

State or federal mandates requiring employers to offer health-care coverage and governing the design or financing of benefit plans may make health insurance too expensive for many firms, forcing employers either to cut wages or to reduce benefits that employees prefer. For small and medium-sized businesses, the added financial burden of mandated health benefits may force more drastic responses, such as layoffs or even the closing of companies. Moreover, the added burdens of mandated benefits could hamper the efforts of American companies to become more competitive in world markets and could limit employees' freedom of choice.

Contact your senators and representatives to urge them to oppose mandated health-care legislation, and ask them to support alternatives that cut health-insurance costs yet allow choice in benefits packages.

Hiking The Minimum Wage



PHOTO: ©MICHAL HERON—WOODFIN CAMP

Legislation to increase the federal minimum wage will be considered by the 101st Congress, despite conclusive evidence that previous increases have reduced jobs and boosted inflation.

Historically, minimum-wage increases have been inflationary, have reduced entry-level job opportunities, have resulted in decreased services to consumers, and have contributed to overall wage inflation by producing a "ripple effect" of across-the-board wage increases. H.R. 2, introduced by Rep. Augustus Hawkins, D-Calif., would raise the minimum wage to $4.65 per hour over three years from $3.35.

Sen. Edward Kennedy, D-Mass., chairman of the Senate Labor and Human Resources Committee, has scheduled hearings and has stated that increasing the minimum wage is a priority for the 101st Congress.

Contact your representatives and senators to urge them to oppose legislation raising the minimum wage and instead to support ways to stimulate job creation, such as a lower training wage and credit allowances for tips.

COMMENTARY

Editorials

If business people do not express their concerns to members of Congress, legislation harmful to companies and the economy could be passed.

Business: Applaud The Cooperation, But Be Prepared For The Conflict

In this early phase of his administration, President Bush is properly displaying a spirit of cooperation with the leadership of the Democratic-controlled Congress. He has pledged that the executive branch of government will try to work with the legislative branch in resolving national problems. And the congressional leaders have responded in kind.

This sense of a common purpose is the right note at the outset of a new presidency and a new Congress. It reminds us that regardless of political divisions between the two branches and within the Congress, our federal government has the common mission of serving the public interest.

But there will inevitably be conflicts over interpretations of the most effective way to serve that interest. In fact, the new administration and the 101st Congress are already on a collision course over several major issues of pressing concern to business.

There will inevitably be conflicts over interpretations of the most effective way to serve the public interest. In fact, the new administration and the 101st Congress are already on a collision course over several major issues of pressing concern to business.

Those issues include tax and spending policies; mandated benefits, including health insurance and parental leave; minimum-wage increases; and occupational-hazard notification.

The business position on these issues is clear-cut: Tax increases would be counterproductive because they would halt the economic expansion needed to generate revenues; the answer to federal deficits, therefore, is spending discipline, not tax increases.

Minimum-wage increases and mandated benefits would hurt more workers than they would help because the added costs would force many employers out of business.

Proposals for occupational-hazard notification would add cost and paperwork burdens but would give workers no more protection than they have under existing laws.

Members of Congress aligned with organized labor are pressing for passage of such legislation, and some rough times are ahead for those opposed to such government intrusions. Says Albert D. Bourland, vice president for congressional relations of the U.S. Chamber of Commerce: "We have an enormous task before us. Business men and women must be ready and willing to convey to the members of the 101st Congress the impact that proposed legislation will have on their businesses and communities. We must remember that although these elected officials are our representatives, they cannot know the repercussions of legislation on their constituents unless they are informed by them."

Business people have a heavy responsibility, therefore, not only for keeping themselves informed on issues of major concern to the private sector but also for keeping elected officials aware of the impact those measures would have on the enterprise system.

Without such activity, there will be the danger of the passage of legislation that could do great harm to individual businesses and to the economy generally.

Big labor is going all out in support of its legislative goals. The business community should do no less.

A Typical Washington Story With A Typical Washington Ending

In its election-year approval of health-care coverage for catastrophic illnesses among the elderly, Congress once again portrayed itself as the generous protector of the nation's older population.

The legislation was passed amid a chorus of praise for the many benefits it would confer on senior citizens who incurred massive health-care bills.

But then people began reading the fine print. A lot of them, including many of the elderly in whose name the bill was passed, did not like what they saw. The legislation provides many benefits, to be sure, but it also carries a hefty price tag that will be paid by the same people eligible for those benefits.

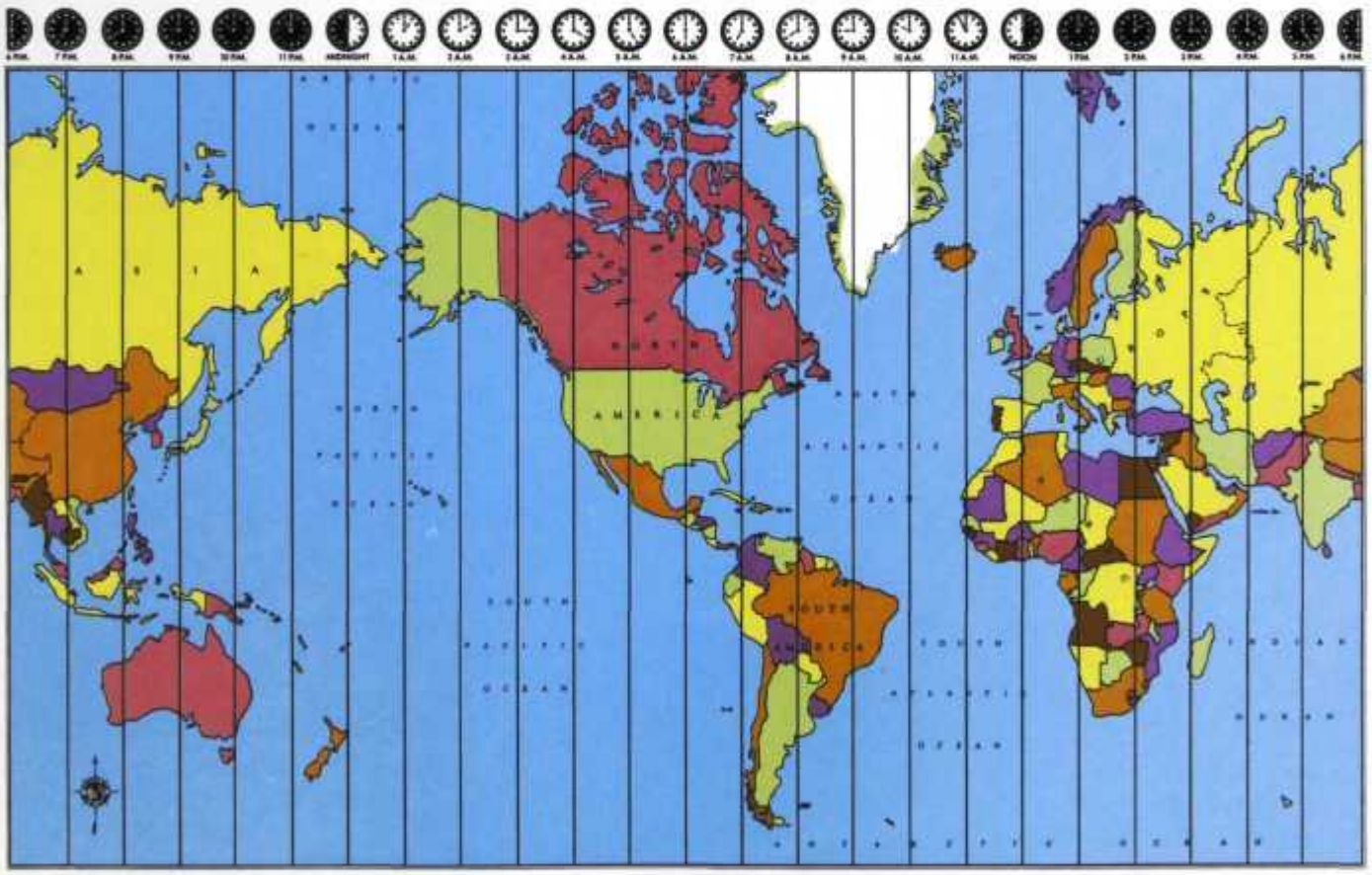
The Medicare Part B (doctors' care) monthly premium will be raised, and there will be a new annual, supplemental premium equal to $42 for each $150 paid in federal income taxes. The latter charge has a $1,050 cap, but many of the elderly are saying they did not expect that the new benefits would carry such out-of-pocket cost increases.

While some members of Congress have responded to complaints by promising to review the premium schedule, the likelihood of change is considered remote at a time when curtailing the deficit is the top priority in Washington.

The experience may have some long-run positive results in terms of weighing "benefits" conferred on various population groups. In view of the way the catastrophic-illness bill was presented to the public, perhaps those groups singled out for future largesse will be more careful to begin evaluating early in the legislative process who is going to obtain the advantages and who is going to pay for them.

What's that saying about free lunches? NB

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